REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

...2004

December

Office of the Auditor General

Mission

To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

Vision

Demonstrating and being recognized for independence, professional excellence, and credibility.

Making a significant contribution in support of an accountable and well-performing government.

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Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith an additional Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E R Salmon

E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
November 26, 2004

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Introduction

1 MESSAGE FROM THE AUDITOR GENERAL

INTRODUCTION

1.1 I am pleased to submit my December 2004 Report to the House of Assembly. This is my fourteenth Report as Auditor General. I have a continuing commitment to provide information to the members of the House of Assembly, particularly those who serve on the Public Accounts Committee, to assist them in holding the government to account for the management of public funds. As well, the audit efforts result in recommendations to the managers in the entities audited focusing on areas where improvements can be implemented that would result in enhanced controls and greater economy and efficiency.

1.2 In addition to this Report, I also issued a number of other reports during the past year. These are as follows:

- My 2003 Performance Report and 2004 Business Plan was dated March 11, 2004 and tabled on March 31, 2004.
- My Report on the Estimates of Revenue for the fiscal year ending March 31, 2005 was dated April 19, 2004 and included with the Budget Address tabled by the Minister of Finance on April 22, 2004,
- An additional report to the House of Assembly dated May 17, 2004 was tabled on June 16, 2004. This Report contained nine chapters covering audit work performed from the date of the 2003 Annual Report up to May 2004. This was the first time I had issued what might be called an interim report. It was well received by the Public Accounts Committee as it provided them with more timely information and allowed them to schedule hearings on some of the audits. I intend to table a similar additional report in mid-2005.
- My Report on the Province's March 31, 2004 consolidated financial statements was dated July 9, 2004 and tabled with the Public Accounts by the Minister of Finance on September 30, 2004.
- A Report dated November 30, 2004 on the health indicators included in the Minister of Health's report *A Measure of Our Health and Health System*.

1.3 This Report contains ten chapters dealing with audit activities completed since the date of the additional report. I have also prepared and am tabling a highlights booklet which summarizes the key messages and recommendations in the Report. I have not commented on all of those matters in this chapter, but rather wish to discuss those that I consider the most significant.

GOVERNMENT'S FINANCIAL REPORTING

1.4 Amendments were made to the Provincial Finance Act to advance the legislated deadline for tabling the Public Accounts from December 31 to September 30 and this deadline was met. Department of Finance officials also continued their efforts to fully implement Generally Accepted Accounting Principles (GAAP). I have supported and encouraged both of these initiatives as they result in the provision of more timely and complete financial information.

1.5 Efforts made by Government Accounting staff to accumulate appropriate information for audit purposes and to deal with issues as they were identified aided significantly in completing the work necessary to meet the September 30 legislated deadline.

GOVERNMENT'S SYSTEMS AND CONTROLS

1.6 Government has a number of very significant systems and control improvement initiatives underway. Some of these have government-wide implications while others are entity specific. Some of these arise from recommendations made in my previous Reports while others arise from deficiencies identified from internally commissioned reviews or problems identified by government staff. These are all complex and costly initiatives and are intended to improve control and provide better information for decision making.

1.7 These projects will strain the available resources and will require careful, continuous monitoring by government and by my Office.

PENSION ASSET MANAGEMENT AND GOVERNANCE

1.8 This is a significant area requiring close management attention. Assets available to fund the Province's pension plans totaled $7.3 billion at March 31, 2004. Chapter 5 outlines a number of recommendations arising from our audit and discusses an initiative undertaken by Department of Finance management to identify needed improvements. I strongly encourage government to closely monitor these matters and ensure appropriate action is taken.

HEALTH CARE

1.9 Expenditures on health care in the year ended March 31, 2004 totaled $2.3 billion, by far the largest area of utilization of public funds. Chapters 6, 7 and 8 report the findings of audits conducted in three areas in the health care sector. In all of these, opportunities for improved controls, as well as areas where costs could be reduced or revenues increased, were identified. The following are the more significant of these.

1.10 In Chapter 8, significant issues with regard to revenues were identified. These included lack of information to assess whether revenues and recoveries are sufficient to cover the costs of services provided, delays in issuing billings, incomplete costs included in the motor vehicle levy calculation and significant past due accounts receivable in the District Health Authorities. As at March 31, 2004 37% of the $42 million of accounts were over 90 days old indicating a potential collection problem.

1.11 A significant problem with revenue collection is discussed in Chapter 6. This deals with the account of a non-resident and raises concerns about the policies of the Department of Health and the Capital District Health Authority. Between 2001 and January 2003, the individual accessed various medical services and paid for them. From February 2003 until the fall of 2004 there were three hospital stays, one of which exceeded 180 days. If the approved rate had been used to charge the patient the accounts receivable balance would have been $642,000 at the time of our audit in the fall of 2004. The patient had private health insurance and a payment of $53,048 was received in April, 2004. CDHA is pursuing collection of further amounts from the insurance company as well as considering a claim against the deceased patient's estate. I believe this case illustrates significant credit management risks within CDHA.

1.12 Chapter 7 discusses the results of an audit of publicly funded prescription drug programs in Nova Scotia. In the last three years, the costs of these programs have risen 21% to $108 million in 2002-03. The audit identified significant opportunities to achieve cost savings including options to purchase drugs at significantly lower prices. Hospitals in this Province purchase drugs at a price which is almost 15% lower through a national buying group. I believe options for bulk purchasing should be seriously considered although I acknowledge there would be challenges related to warehousing, distribution and the willingness of drug manufacturers to reduce prices. The potential for significant cost savings, even from modest price reductions, would justify the Department of Health conducting a comprehensive analysis of possible options for reducing prices. In addition, initiatives to monitor drug utilization and physician prescribing practices should be expanded.

CONCLUDING REMARKS

1.13 This Report does contain many positive findings and I acknowledge the efforts public servants are making to manage programs effectively. I also acknowledge the willingness of these public servants to consider and act upon recommendations made as a result of audits. I have established a practice of following up on recommendations after a three-year period and have been pleased to note the actions taken. However, as has been discussed in the Report, there are significant challenges and opportunities to improve controls and more effectively manage taxpayers' dollars.

1.14 Finally, I wish to acknowledge the efforts of my own staff, from my senior management team through to the newest recruited student. This Report and the others listed at the beginning of this chapter would not be possible without the knowledge, analysis and professionalism they put into their assignments.

Government-Wide Issues

2 GOVERNMENT FINANCIAL REPORTING

BACKGROUND

2.1 Members of the Legislative Assembly (MLAs) need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.

2.2 Under the provisions of the Provincial Finance Act, the Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province. Certain of these assignments include the need for Governor in Council (i.e., Executive Council) approval or ratification of planned actions.

2.3 The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. These include the following.

- Annual estimates (Section 7A)
- Interim reports on state of public finances (Section 8B, see also Section 77)
- Annual public accounts (Sections 9 and 10)
- Remission of tax, penalty or other debts (Section 19B)
- Additional appropriations (Section 28, see also Section 75)
- Special warrants (Section 29, see also Section 59D)
- Redemption or purchase of securities (Section 54)
- Financial transactions (Section 59B)
- Financial obligations (Section 59C)
- Consolidated fiscal plan (Section 82)
- Report on outcomes for fiscal year (Section 83)

2.4 Further, Section 73 of the Provincial Finance Act requires that crown corporation business plans, any proposed public financing and audited financial statements be tabled in the House of Assembly each year.

2.5 As a foreign registrant of the Securities and Exchange Commission (SEC) in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.

2.6 In addition to required financial reporting, government can and has periodically, at its discretion, released other financial information or reports publicly.

2.7 Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

2.8 In accordance with the professional standards referred to above, the Office of the Auditor General's 2003 Performance Report and 2004 Business Plan publication (issued March 31, 2004) included comments on the independence of the Auditor General position from government as well as on the professional conduct rules and standards adhered to by this Office.

RESULTS IN BRIEF

2.9 The following are our principal observations in this chapter.

- The Auditor General's audit report on the Province's March 31, 2004 consolidated financial statements was unqualified. It was tabled September 30, 2004 as part of the March 31, 2004 Public Accounts. The earlier release this year of the Public Accounts met the new statutory deadline established by the House in spring 2004. A management letter on this year's audit was issued to government in November 2004.
- Government's response to matters reported by the Auditor General as a result of our review of the 2004-05 revenue estimates will be followed up as part of the 2005-06 review.
- No additional appropriations have been approved since our last Report, released in June 2004. Additional spending authority for 2003-04 of $99,017,000, for net program expenses where approved vote totals were exceeded, requires Order in Council approval within 90 days of the release of the March 31, 2004 Public Accounts. No special warrants have been approved since our last Report.

SCOPE

2.10 The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual coverage and reporting by the Auditor General on the Province's consolidated financial statements (audit - high assurance) and government's revenue estimates (review - moderate assurance), respectively. The Office is also required to review the Province's annual U.S. SEC filing documents.

2.11 The annual financial statements of various crown entities and trusts are, depending on statutory or other arrangements, audited and reported upon by the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, where appropriate, during the conduct of the Office's discretionary broad scope assignments in selected areas each year.

2.12 The purpose of this chapter is to provide summary comments and observations on government's financial reporting, including information on our annual examinations of the Province's consolidated financial statements and the government's revenue estimates.

PRINCIPAL FINDINGS

Audit of Province's Consolidated Financial Statements

2.13 Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the Province's consolidated financial statements which are government's responsibility, represented primarily by the Minister of Finance.

2.14 Government tabled and released the Province's March 31, 2004 consolidated financial statements on September 30, 2004 as part of Volume 1 of the Public Accounts. The Auditor General's opinion on those statements was unqualified.

2.15 Earlier release - The September 30th release met the new statutory deadline (i.e., by September 30th) for the tabling of the Public Accounts that was established during the spring 2004 sitting of the House of Assembly. The timing of this year's release was a significant improvement over prior years, and represents the earliest release by government of the Province's consolidated financial statements.

2.16 Based on experience in prior years, Finance's Government Accounting Division had agreed to focus additional attention on certain key areas. The Division increased its quality assurance processes, on the information provided by departments and agencies, in order to reduce the risk of errors in the draft financial statements and improve the efficiency of the year-end accounting processes. These areas for increased attention by Government Accounting staff included:

- federal-Provincial accounts receivable/payables and accruals by revenue line item and by year;
- closure and clean-up provision balance(s) for SYSCO;
- year-end accruals and accrued balances of departments;
- commitments and contingencies of departments; and
- restructuring costs and accruals.

2.17 The target deadline for completion of our audit of the consolidated financial statements was September 23, 2004. We provided Finance with the Auditor's

Report for printing purposes on September 24th. It was signed by the Auditor General on September 28th, and approved for release as part of the Public Accounts after outstanding concerns with the Financial Highlights section of that publication were addressed.

2.18 Our scheduled date had assumed year-end accounting and audit readiness requirements would be met on a timely and appropriate basis. We are pleased to report that the year-end accounting and audit readiness requirements were satisfactorily met. Further, Government Accounting staff's increased attention to selected areas, such as those listed earlier, contributed significantly to achievement of an earlier reporting deadline and helped expedite resolution of various issues identified during our audit.

2.19 GAAP compliance - Canadian generally accepted accounting principles (GAAP) for the public sector are being followed to the extent necessary to provide an unqualified opinion. There are certain specific requirements not yet being fully met. For example, the following are identified areas where government should consider fuller GAAP compliance in the future.

- The consolidated financial statements do not include disclosure required by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) of budget amounts for the line items on the Statement of Operations and Statement of Change in Net Direct Debt. Related to this, the government does not yet prepare or present its budget on a basis fully consistent with that used for the consolidated financial statements. Information is included in the Financial Highlights section of Volume 1 of the Public Accounts in order to compensate for this lack of disclosure in the statements themselves.

- When consolidating the tangible capital assets (TCA) balances of entities included in the reporting entity, those balances are not adjusted to comply with the government's TCA accounting policy requirements for such factors as thresholds, amortization rates and useful life expectancy. Management has indicated that there would be practical challenges in implementing this requirement and it is felt that the costs of doing so would exceed the benefits.

- According to PSAB, when a known accounting issue carried forward from a prior period is corrected, it should be done prospectively versus retroactively. This means the full impact of the change should be recognized in the current year as opposed to splitting it between the current year and prior years. The accounting change required to accrue teachers' salaries at year end has been a known issue for a number of years, but its $14.7 million impact was accounted for retroactively in the March 31, 2004 consolidated statements. Under PSAB, the full impact of the accounting change should have been reported in the 2003-04 results.

- A number of smaller crown entities and government partnership arrangements are not yet fully and appropriately accounted for in the consolidated financial statements. The impact of this is an understatement of net assets and an overstatement of net direct debt of approximately $22.2 million.

- One instance was noted where the internal consistency of the application of accounting principles could be improved. Long-term disability assets are not being accounted for on a smoothed market valuation basis, which is used for other post-employment benefit assets (e.g., pension and other retirement benefit plans).

2.20 It is important to acknowledge that the accounting standards and pronouncements that make up GAAP continue to evolve. There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. For example, the following are more significant matters on which PSAB has recently released final or draft pronouncements:

- financial statement discussion and analysis;
- government transfers;
- liabilities, contingent liabilities and contractual obligations; and
- GAAP hierarchy.

2.21 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. As previously recommended, government should disclose the nature and impact of required or planned accounting changes as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

2.22 Systems and controls - Government, primarily through management of the Department of Finance, is responsible for preparation of the Province's consolidated financial statements. This includes responsibilities related to internal control, such as designing and maintaining accounting policies, safeguarding assets, preventing and detecting error and fraud, and being aware of circumstances that could result in fraudulent financial reporting.

2.23 Government's senior executive management is responsible for the design, implementation, operation and maintenance of controls. Responsibility for systems and control processes within government needs to be clearly defined and communicated on a more comprehensive basis. While the Provincial Finance Act includes general references to the roles and responsibilities of the Minister, Deputy Minister and Controller in this regard, there needs to be additional guidance developed. Government needs to ensure the roles and responsibilities of departmental and crown entity governing bodies and senior management in relation to control and risk management are well defined, documented, communicated and understood. In addition, government needs to provide them with the necessary tools and support to cost-effectively fulfill such requirements.

2.24 In conducting our audit, we obtained a sufficient understanding of the systems and controls to plan the audit. Where we relied upon controls, sufficient audit evidence was obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2004 consolidated financial statements was not planned or conducted in order to conclude on the adequacy of the overall level or quality of controls.

2.25 While conducting the financial statement audit, areas were identified where internal controls could be strengthened or operating improvements achieved. Certain matters identified during the current year have implications which warrant government's consideration. These have been communicated to Finance as part of the management letter and an exit meeting process. As part of the audit of the Province's March 31, 2005 consolidated financial statements, we will follow up on these matters to determine the status of actions taken or planned.

2.26 Management letter - In November 2004, a management letter was issued to government providing various observations from our audit of the Province's March 31, 2004 consolidated financial statements. That letter also included management responses to many of the matters we reported. The following are the more significant observations reported.

- Government's preparation of the Province's consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to future actual results differing from government's assumptions upon which the accounting estimates were based. At the conclusion of this year's audit, there were no significant outstanding concerns with the estimated accounting balances used in preparing the March 31, 2004 consolidated financial statements.

- During the audit of the March 31, 2004 consolidated financial statements a number of accounting, disclosure and audit issues arose, and were communicated to government staff at various points in the audit process. Some, but not all, of these were resolved either by review of additional information provided or by adjustments being made to the financial statements.

- With regard to the Province's consolidated financial statements and government's other financial reporting, it is appropriate for all known errors or identified misstatements to be corrected other than trivial ones. However, it is not unusual for financial statements of an entity of the size and nature of the Province to have residual issues at the conclusion of an audit. Such unresolved, unadjusted errors or differences are considered when preparing the Auditor's Report on whether the statements "present fairly" in accordance with GAAP.

- Government's internal audit function is centralized within Finance. The existence of an effective internal audit function in government is an important mechanism to assist management in monitoring the discharge of its responsibilities for the use and control of public resources. The organization chart for Finance in the Management Manual shows internal audit reporting to the Deputy Minister but in practice it has been reporting to the Controller and now an Associate Controller's position. This reporting relationship impairs the independence and performance of the internal audit function. Further, there have been a number of other organizational changes within internal audit since it was centralized a few years ago. Finance senior management acknowledges the need to address this concern. A committee has been designated to review the mandate, governance and organizational structure of the internal audit function to ensure it is effective. The Director of Corporate Internal Audit at Finance is preparing a strategic planning report which is expected by December 31, 2004.

- An audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions was completed for Finance by a private sector firm during 2004. We understand that there are a number of significant issues and recommendations resulting from that audit. We encourage Finance to act quickly in addressing the recommendations in that audit report to ensure an adequate governance and control framework is established and functioning effectively.

- The Provincial Finance Act requires Order in Council (OIC) approval of all new debt issues. Issue CP40 for $90.6 million was issued in March 2004 but the OIC approving the issue (2004-226) was dated May 21, 2004. The statutory requirement for approval of new debt issues should be in place prior to the actual issue of the debt.

- Finance's Government Accounting Division has responsibility for the quality of the accounting and reporting for the Province's financial statements but is not always made aware, on a timely or direct basis, of matters which have significant accounting and disclosure consequences. In order to ensure the effectiveness of Finance's controllership function, it is important that departmental staff make Government Accounting aware of these matters on a timely basis.

- There were a number of issues around the draft contingencies and commitments note to the financial statements including items which were excluded, items included which should not have been and incorrect amounts. There need to be further improvements in the quality assurance process followed by departments and Finance for the support provided for this note. It may be beneficial for some training to be provided to applicable staff within departments to ensure a complete understanding of what accounting contingencies and commitments are and that staff keep them in mind, from a financial statement perspective, during the year, when agreements/contracts are signed.

- The auditors of SYSCO indicated that the projected costs for SYSCO closure and clean up activities are conservative estimates based upon the information known at that time. They also recommended that the estimates be updated annually. Government needs to ensure that an appropriate process is put in place to monitor the adequacy of the estimates annually in relation to the remaining balance of the provision set up in 1999-2000. In this regard, we note that government has recently taken steps to create the Sydney Tar Ponds Agency as a special operating agency to oversee and manage the use of these funds for their intended purposes.

- We noted that Nova Scotia Business Inc. (NSBI) and Industrial Expansion Fund (IEF) share certain assistance clients. For two of those clients, in addition to being approved for payroll rebates by NSBI, loan assistance was also received from IEF. The IEF arrangements specify that the payroll rebate funds are to be provided to IEF by NSBI in order to pay down the IEF loan. These assistance arrangements, when considered individually, are properly completed and accounted for by NSBI and IEF respectively in their own financial statements. However, since NSBI and IEF are both part of the government reporting entity for the consolidated financial statements, the collective or combined impact of these two arrangements should be accounted for as a grant transaction in the consolidated statements. The dollars involved to date are not significant (i.e., less than $1 million) in relation to the consolidated financial statements, but if more of these types of arrangements are to be used, the Province's consolidated financial reporting will need to account for and disclose them appropriately.

2.27 Year end approvals of new and amended grant assistance - During our testing we examined two grant payments, totaling $3 million ($1.5 million each), approved and made on March 31, 2004 and recorded in 2003-04 expenses. These grant funding arrangements were originally approved in July 2003 through the Office of Health Promotion. Originally they were to be paid in installments of $500,000 each in fiscals 2004-05 through to 2006-07. There were to be a number of conditions attached to the grants including the requirement that claims be submitted for eligible costs incurred and paid by the applicant, prior to any funds being disbursed by government.

2.28 On March 31, 2004, Executive Council approved amendments to these grant arrangements eliminating, among other requirements, the need to incur costs prior to funds being disbursed and approving that the expenses would be recorded in fiscal 2003-04. A financial statement outlining construction costs incurred must now be submitted once the projects are completed.

2.29 The amendments made to the grant conditions allowed the recording of the expenses in fiscal 2003-04 in accordance with GAAP, but reduce the degree of accountability and control government has over the use of these funds.

2.30 Financial Highlights section of Public Accounts - Professional standards require that an auditor make arrangements for a pre-release general review of any information or other documents to be released concurrently or in combination with information (e.g., financial statements) upon which the auditor has or will be reporting. In such circumstances, if the auditor is not provided with an opportunity to perform a general review or if the review identifies matters of concern that are not adequately addressed by management, the auditor should decline to provide permission for the Auditor's Report to be issued with the related information or documents.

2.31 We reviewed, but did not audit, the information in the Financial Highlights section of Volume 1 of the March 31, 2004 Public Accounts. Where applicable, totals have been agreed to the Province's March 31, 2004 consolidated financial statements. Our review of the draft Financial Highlights section identified a number of content concerns, the more significant of which were subsequently adjusted for or resolved through alternative means. For example, when the information in the Financial Highlights was reviewed prior to providing the Auditor General's Auditor's Report for printing purposes, it was noted that the disclosure around the comparability of the 2003-04 budget and the 2003-04 actual results needed to be significantly improved.

2.32 It is our understanding that, in the future, responsibility for compiling the information for the Financial Highlights will be given to Finance (i.e., Government Accounting staff) as opposed to Treasury and Policy Board. We support this change, as Finance is responsible for financial reporting by government and as such, should be responsible for ensuring the information in such publications is GAAP compliant.

2.33 The new PSAB guidance on financial statement discussion and analysis should be used when preparing the 2004-05 Financial Highlights. We understand that this is Finance's intention.

Review of Government's Revenue Estimates

2.34 Under Section 9B of the Auditor General Act, the Auditor General is mandated to examine and report on government's annual revenue estimates. Our next planned reporting under Section 9B will be on the government's 2005-06 revenue estimates, and will be tabled in the House along with the supporting information for the 2005-06 Budget.

2.35 As part of our revenue estimates review, we refer to pronouncements of the Canadian Institute of Chartered Accountants (CICA), including those directed to management preparers of future-oriented financial information (FOFI). Each year, we notify Finance that the Department should ensure appropriate compliance with those pronouncements when preparing and presenting the revenue estimates.

2.36 Subsequent to the conclusion of and reporting on our last review under Section 9B (i.e., on government's 2004-05 revenue estimates) we issued a management letter to Finance on May 10, 2004. That letter provided additional observations and comments from our review of the 2004-05 revenue estimates and other related information included in the Minister of Finance's April 22, 2004 Budget Address and supporting documents. A summary of selected matters and the recommendations from that letter were included in Chapter 2 of the June 2004 Report of the Auditor General. The Minister of Finance provided a response to our management letter in correspondence dated June 22, 2004.

2.37 The above information, including government's response to the matters reported, will be considered as part of our review of the 2005-06 revenue estimates.

OTHER MATTERS

2.38 New pronouncements from the CICA's Assurance Standards Board - As a result of new pronouncements from the CICA's Assurance Standards Board, additional and enhanced quality control procedures will be required for the Office's assurance examinations, including our review of the government's revenue estimates and our audit of the Province's consolidated financial statements. These changes will add additional time and effort to our assurance examinations, and will require more time between the completion of our work and the issue of the Auditor General's opinion. Government will have to include added lead-time for our quality review processes as part of its scheduling for the 2005-06 Budget and 2004-05 consolidated financial statement processes and related printing.

2.39 Additional appropriations and special warrants - Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the June 2004 Report of the Auditor General, chapter 2.

2.40 No additional appropriations have been approved since our last Report. Based on the information included on pages A23 and A24 of the Financial Highlights section of Volume 1 of the March 31, 2004 Public Accounts, additional appropriations are required for 2003-04. Additional spending authority for 2003-04 of $99,017,000, for net program expenses where approved totals for nine votes were exceeded, require Order in Council approval within 90 days of the release of the March 31, 2004 Public Accounts.

2.41 A review of the information provided on the above referenced pages of the Financial Highlights section indicates that the overspending of certain votes was offset for the most part by underspending in other votes. However, in this regard, it is also worth noting that the original budget for each vote does not reflect the changes to TCA amortization rates and thresholds announced March 30, 2004 and appropriately reflected in the 2003-04 actual totals. Without the benefit of these changes to the TCA accounting, additional appropriations would have been required for ten votes, totaling $105.3 million. Without the change in TCA accounting, Transportation and Public Works would have reported overspending of $3.98 million versus the $16.77 million underspending reported.

2.42 While it may be too early to determine what additional spending authority may ultimately be required for the 2004-05 votes, information included in the government's Forecast Update dated September 15, 2004 indicated that the voted appropriations in three departments were forecasted to be exceeded.

2.43 During the audit of the March 31, 2004 consolidated financial statements, we observed instances where government approved new or amended conditional grant funding arrangements late in 2003-04. The effect of this was that specific 2003-04 spending limits were exceeded more than they otherwise would have been. Government's decisions with regard to these grant funding arrangements appear to be within its authority. Our purpose here is to reemphasize a point we have made on numerous occasions in previous reporting: current arrangements for approval and reporting of additional appropriations do not support effective control by the House or accountability for government spending.

2.44 We note that since our last Report, there have been no special warrants approved by the Executive Council under Section 29 of the Provincial Finance Act.

CONCLUDING REMARKS

2.45 Appropriate and continued implementation of government's decision to ensure generally accepted accounting principles are followed in all of its financial information and reports contributes to the quality of government's financial reporting. In this regard, we urge government to make increased and earlier use of Finance's professional accounting staff to ensure that all of its required and discretionary financial information and reporting are presented appropriately. For example, government's financial statement discussion and analysis included in the Financial Highlights section of the Public Accounts should be the responsibility of Finance's Government Accounting staff under the supervision of the Controller.

2.46 Significant efforts were made by Government Accounting staff to improve the quality of the year-end support files and to ensure all necessary information was available when required. Also, issues identified as a result of our audit were dealt with in a timely manner. Their efforts aided significantly in completing the work necessary to release the consolidated financial statements by the new legislated deadline of September 30th.

3 GOVERNMENT SYSTEMS AND CONTROLS

BACKGROUND

3.1 Government financial, program and other management activities are facilitated or supported by a variety of systems and control processes. These include a number of corporate or government-wide systems (e.g., Corporate Financial Management System - CFMS/SAP; Human Resources Management System - HRMS) or processes (e.g., annual business planning, budgeting and accountability reporting; procurement). There are also numerous entity or program level systems and processes.

3.2 Government's business systems and technology initiatives are subject to oversight review by the Business Technology Advisory Committee (BTAC), which is a committee of deputy ministers reporting to Treasury and Policy Board (TPB). Initiatives within crown entities are governed by their respective governing board or other appropriate body.

3.3 Although not specifically quantified, the costs of acquiring, implementing, operating and maintaining systems and control processes within the Provincial public sector are significant. However, a more important factor is the quality and cost-effectiveness of the systems and control processes in mitigating financial and other risks of managing government programs and services.

RESULTS IN BRIEF

3.4 The following are our principal observations presented in this chapter.

- Government has a number of significant systems and control improvement initiatives in process, including the following:
  - addressing the recommendations from our 2003 Report concerning CFMS/SAP, including the results of a service auditor review to be reported in November 2004;
  - completing the implementation of the SAP HR module for core government and regional school boards (eMerge Project). New implementation dates have been established and increased funding approved for this project;
  - addressing recommendations from an audit of the governance and control structures for the pension investments and treasury areas;

  - addressing recommendations from an external firm's review of the *procure to pay* process;
  - addressing the governance and project management issues concerning the Pension Administration System implementation project identified in previous audit reports, and completing the project; and
  - addressing recommendations from an external firm's audit of the Art Gallery of Nova Scotia's governance and management processes.

- Compliance with the government procurement policy for the use of alternative procurement arrangements needs to be improved.
- The Office of Economic Development has a very detailed accountability process in place for funds provided to Regional Development Authorities.
- A new security policy and standards for the government's wide area network were implemented effective October 1, 2004. Steps are currently underway, through the Department of Transportation and Public Works, to ensure that any non-compliant practices or procedures are identified and addressed.
- The current Government of Nova Scotia Management Manuals do not have a policy requiring departments and entities to report losses. Prior versions of the Manuals included this requirement.

SCOPE

3.5 The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its entities, and recipients of financial assistance. For example, Section 8 of that Act indicates that we may examine whether:

- accounts have been faithfully and properly kept;
- all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;
- money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;
- money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and
- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

3.6 The purpose of this chapter is to provide summary observations and information on the government's systems and control processes in order to assist the House of Assembly, and its Public Accounts Committee, to hold government accountable for the adequacy of systems and controls over the use of public funds or resources. Other chapters of this Report may also include related observations as a result of audit examinations in specific areas or entities.

3.7 Certain of the comments in this chapter are not the result of formal completed audits but rather the result of ongoing review and enquiry procedures, and are provided herein for information purposes only.

PRINCIPAL FINDINGS

CFMS and SAP Control Initiatives

3.8 The 2003 Report of the Auditor General (Chapter 3) included the results to date of our examination of selected aspects of the government's SAP central financial management system (CFMS). We identified a number of significant control concerns and provided 20 specific recommendations for consideration by Department of Finance management. Certain of those recommendations required consideration on a government-wide basis, not just by Finance.

3.9 Finance management have committed to addressing the control concerns we reported, and undertook to develop an action plan to identify and assess alternatives for each of our recommendations. On March 3, 2004, Finance tabled, with the Public Accounts Committee, a summary analysis of the status of action taken or planned on the concerns we reported. A steering committee was established in April 2004 to oversee this process.

3.10 A recent update to the status report was provided to the steering committee on September 1, 2004. Although we have not yet specifically reviewed or verified the actions taken or planned, that report indicated that eight of the twenty recommendations had been completed.

3.11 One recommendation that has now been addressed is that the government has contracted for an annual service auditor review. This will include a report on controls for the centralized SAP infrastructure and support functions performed by Finance for a number of public sector entities. The initial audit work was planned for completion in November 2004. This is to be followed up with an audit covering each of the periods ending March 31, 2005 and March 31, 2006. It is our understanding that this audit work will continue to be done on an annual basis. We will consider the results of the service auditor's work in our future coverage of CFMS/SAP, as well as during our annual audit of the government's financial statements.

Project eMerge

3.12 In March 2002, during the 2002-03 budget process, the Executive Council approved funding to implement SAP's human resource (HR) module, through a joint project for the government and the school boards. The project was named eMerge to reflect the partnership between the school boards and the government, as well as the integrated aspects of the project with existing SAP financial modules already in use.

3.13 The project was initially approved with a planned implementation on August 1, 2004 for the school boards and October 1, 2004 for the government. In June 2004 a decision was made to amend the implementation date for the school boards to January 1, 2005 and to split the project into separate components for each of the government and the school boards.

3.14 In July 2004, a detailed assessment was performed by the project's quality assurance team. The report from that assessment, dated August 9, 2004, identified several areas of concern resulting in a high risk that the project would not be completed by the planned dates. As a result of the recommendations contained in that report, a decision was made by government to further amend the implementation dates as follows:

- government - April 1, 2005
- school boards - late 2005 (date to be established)

3.15 As part of the project review, a decision was made to split the project into separate components for each of the government and the school boards. The Project Director informed us that the decision to split the project into separate components was due to significant differences emerging in the requirements for the government and the regional school boards.

3.16 The original capital and operating budget for this project, when it was approved in 2002, was $5.7 million. In 2004, the combined budget was increased to approximately $13.1 million; with actual costs of approximately $6 million recorded for the project to October 2004. The Project Director noted that the increases in the budget were due to a number of factors including:

- changes in the scope of the project where the government and school board components were split into separate projects due to significant differences in requirements;

- complexities of the dual-sector project were significant and expected synergies were not realized; and

- additional work recommended in the August assessment report to address the identified risks.

3.17 We have not performed any audit procedures on this project to date, but will consider including it in our future audit plans.

Pension Investment and Treasury Governance and Control Structures

3.18 Our Office audit plans for 2004 included a broad scope examination of pension and other retirement plans. During initial planning meetings with Finance, we were informed that government was commissioning an audit by a private sector firm, through its Corporate Internal Audit group. This audit was to examine the governance and control structures in place over its pension investment and treasury functions.

3.19 As a result, we modified our scope in order to avoid overlap or duplication of coverage. The results of our work in this regard are reported in Chapter 5 of this Report.

3.20 The results of the work performed by the private sector auditor were available in draft to Finance senior management in summer 2004. That audit identified a number of significant matters and related recommendations for improvement to the governance and control structures in the pension investment and treasury areas.

3.21 At the time of writing this chapter, it was our understanding that government was to release the private sector firm's report in late November 2004, along with its plans to deal with the results.

Pensions Administration System - Implementation Project

3.22 In our June 2004 Report we commented on the findings of an independent audit that had been performed on the pension administration system implementation project. The report by the external firm was released on March 6, 2004 and contained some significant findings related to the governance and management aspects of the project. The project was four years overdue and had accumulated costs of more than three times the original budget. Although certain system components were functional, there was still significant work required to complete the project.

3.23 Since our June Report, management has undertaken several steps, including the following, to address the remaining aspects of the project.

- A steering committee has been reestablished and provided terms of reference that set out the specific roles and responsibilities of the parties involved. This committee has been meeting regularly.
- A project charter has been developed and approved by the project owner.
- A full-time project manager has been contracted to oversee the project.

- A detailed assessment has been performed by the project manager of what has been completed and what remains to be done.

3.24 Management at Finance indicated to us that the overall target date for completion of the remaining identified deliverables is March 31, 2005. Additional enhancements are also being considered and will require a separate planning component to define requirements.

3.25 We are currently in the process of completing a systems-based audit of the controls of the new system, and will consider a review of the completion of the implementation project as part of that audit and report the results in spring 2005.

Art Gallery of Nova Scotia

3.26 We began preliminary planning for an audit of the Art Gallery of Nova Scotia in early 2004. Before a plan was developed, we were informed that the Department of Tourism, Culture and Heritage, in conjunction with Finance's Corporate Internal Audit group, had contracted an external firm to perform a review of the Art Gallery. The review focused on governance and management processes as well as financial information and systems.

3.27 The key objectives of that review were to:

- review the Art Gallery's strategic plan and assess the governance framework in terms of roles and responsibilities, reliability and timeliness of information, monitoring of management, and communication with the Minister;
- review and comment on management in terms of reporting relationships, accountability mechanisms, flow of information, and capabilities to fulfill responsibilities;
- review and assess the adequacy of the financial management system and evaluate the appropriateness of internal controls;
- review and assess the accuracy, reliability and completeness of financial and management information; and
- identify and present other entities for comparison.

3.28 The external firm's final report was dated April 2004 and issued to government and the Art Gallery. It contained a number of significant findings and recommendations in the areas of governance, management planning and control environment, internal controls and management structure, and roles and responsibilities.

3.29 It was indicated to us by management of the Art Gallery that many of the findings and recommendations of the audit report align with issues identified in the Gallery's recent Strategic Plan, and that a committee of the Art Gallery's

Board of Governors dealing with strategic planning issues continues to work on implementation of the Strategic Plan and findings of the audit report. An employee is being hired under contract to carry out the implementation procedures.

Procurement Administrative Review

3.30 As noted in Chapter 3 (paragraphs 3.23 and 3.24) of this Office's June 2004 Report, the Departments of Finance and Transportation and Public Works contracted an external firm to perform a procurement administrative review of the *procure to pay* process stream within government. The final report from that review was dated December 2003, and included a number of findings and recommendations regarding the *procure to pay* process that government needs to deal with in a well-organized, effective and timely manner.

3.31 The Office of Economic Development (OED), which is now responsible for government's Procurement Branch, formed a steering committee in May 2004 to address recommendations resulting from the external firm's review. At the time this chapter was written in November 2004, the steering committee had selected a project manager, who was assembling a project team. In order to ensure this project proceeds in a timely manner, it is important for the steering committee to ensure the project has a formal scope, time lines and work plan with an estimated completion date.

3.32 During 2003, we commenced transactional testing of alternative procurement practices in selected departments. The completion of our planned work in this regard was delayed due to staff turnover within our Office as well as by significant delays encountered obtaining documentation and other information supporting certain transactions selected for testing.

3.33 The government's Procurement Policy provides guidelines for procurement under various situations, including alternative procurement practices. Section 2.9 of the government's Procurement Manual states:

> *"...in order for the Procurement Policy to balance the need for open, competitive opportunity with the demands of urgent or specialized circumstances, alternative procurement practices have been created. These processes must be used only for the purposes intended and not to avoid competition or to discriminate against specific suppliers."*

3.34 This section recognizes that circumstances may occur in which the standard procurement practices cannot be applied.

3.35 The following summarizes our observations from our alternative procurement transaction testing.

- The Procurement Policy states that "*...all procurement activities will be subject to audit by the Procurement Branch or by departmental internal auditors.*" We were informed that the Procurement Branch does not audit procurement activities and that there is no regular reporting of procurement activities or compliance with the Policy. We believe that systems and controls should include an audit function and regular reporting.

- We noted inadequate documentation to support compliance with the Policy. Alternative procurement forms were completed subsequent to the transaction and some forms were not being completed.

- We noted the alternative procurement process being used for purposes other than those provided for in the Procurement Policy.

- The administration of the government's Procurement Policy is currently the responsibility of the Minister of the Office of Economic Development (previously Transportation and Public Works). Our audit noted that administrative procedures established by the Procurement Branch were changed by the Senior Financial Executive Forum (SFEF), an internal government committee. As a result, we were informed that some departments were following the directive of the SFEF while other departments were following the procedures as established by the Procurement Branch and approved by the Minister. We were unable to determine the authority under which the change was made by SFEF.

- During our audit, significant delays in obtaining the documentation to support the procurement transactions selected for testing were experienced. The document management system should be clearly defined and coordinated to ensure documentation required to support procurement transactions is readily available for audit and other purposes as required by the Policy.

- The government's Procurement Policy appears to be inconsistent with the Government Purchases Act. The Act requires all supplies to be tendered and provides for exceptions to this requirement. The Procurement Policy does not require tendering for all procurements. The Policy establishes thresholds for procurements and provides nineteen acceptable situations where alternative procurement practices can be applied. We also noted that the Act does not address all procurement activities addressed by the Procurement Policy. The Government Purchases Act and the government Procurement Policy should be reviewed and updated to ensure the Policy is in compliance with the legislation and there are no inconsistencies between the Act and the Policy.

- The government's Procurement Policy requires the deputy head to approve alternative procurement transactions. Our audit noted that within certain departments this responsibility has been delegated to positions below the deputy. However, the procurement policy does not provide deputy heads the authority for such delegation.

3.36 The results of our work on alternative procurement practices have been provided to the Office of Economic Development so that they can be taken into account when looking at improvements to the *procure to pay* process as part of the project described in paragraph 3.31 above.

3.37 We urge government, through the efforts of OED, to ensure appropriate improvements in procurement administrative policies and practices, including those related to the use of alternative procurement practices, are identified and effectively implemented as soon as practical.

3.38 The Office of Economic Development provided a response to the matters reported above. It is printed on page 28 of this Report.

Regional Development Authorities

3.39 There are 13 Regional Development Authorities (RDAs) in Nova Scotia. RDAs were established in 1994 to facilitate community economic development. The Province provides $1.6 million annually for RDA operations ($125,000 per RDA) with the majority of this funding coming from the Office of Economic Development (OED). RDAs also receive funding from federal and municipal sources.

3.40 Our 2004 plans included an audit of RDAs to examine areas such as accountability structure and financial management. After some preliminary research, we decided not to proceed. Our preliminary work showed that OED has a detailed accountability structure and related processes in place for RDAs.

3.41 The following is a summary of this structure, provided to us through discussion with OED management.

- OED has contracts with each RDA which are renewed annually. These contracts stipulate information requirements RDAs must meet to continue to receive Provincial funding.
- Each Authority is subject to a mid-year review process which assesses how the RDA is doing in a variety of areas and makes suggestions for improvement.
- RDAs must have a regional strategic plan and a business plan which are submitted to OED for review and approval.
- Audited financial statements must also be provided to OED by RDAs within 90 days of their year end.

Wide Area Network Security and Control of Electronic Information

3.42 On April 1, 2002, Treasury and Policy Board, through its Business and Technology Advisory Committee, approved a Wide Area Network Security Policy with an initial effective date of April 1, 2003. This date was then delayed pending the appointment of a security manager. The revised implementation date was October 1, 2004.

3.43 Section I of the policy statement reads as follows:

> *"The Government of Nova Scotia provides a wide range of services to the citizens of Nova Scotia that require a secure IT infrastructure. Many of the computer systems supporting these services use the Wide Area Network (WAN) to transmit sensitive information such as government financial transactions, personnel and payroll records, and proprietary corporate data. The Government of Nova Scotia is committed to protecting the integrity, confidentiality and availability of its information systems, the sensitive information these systems handle, and the privacy of citizen's information, while providing for efficient and effective management of this information."*

3.44 The government's WAN comprises the infrastructure which connects all Provincial public sector local area networks and provides access to email, internet services and various applications processed on a variety of computer resources. The WAN includes specialized communications equipment such as routers, hubs, switches, wireless devices or other devices.

3.45 During 2004, a new position was established in the Department of Transportation and Public Works for a Manager of WAN Security. The position reports directly to the Executive Director of Government Services and has been provided the power, through the Security Policy, to monitor and enforce compliance with the Policy and related standards in regards to all government departments, agencies, boards and commissions that connect to the WAN.

3.46 The Manager of WAN security noted that steps are currently underway to ensure that any non-compliant practices or procedures are identified and addressed. The effective implementation of the WAN Security Policy and related standards should represent a significant step in the development of the corporate component of the access control framework for protecting electronic information across the Provincial public sector.

3.47 Related to this matter, in 2004 we commenced a project to determine which Provincial computerized systems capture and maintain significant personal information and to determine how the personal information is being protected. Although some progress was made on this project we were unable to complete the work in time for this Report. It is our intention to report the results of our work in this area in 2005. The WAN Security Policy will be considered as part of our completion of this audit.

Cash and Other Losses

3.48 Section 9A(1)(e) of the Auditor General Act requires that we report all cases where *"...there has been a deficiency or loss through fraud, default, or mistake of any person"*.

3.49 In prior years, we sent letters to all departments and other selected crown entities to confirm the completeness of losses reported to us in accordance with the requirements which were set out in Chapter 8 of the former version of Management Manual 200. The new Government of Nova Scotia Management Manuals no longer contain a requirement for departments and crown entities to report losses to this Office and as such we have not attempted to confirm the information for 2003-04.

3.50 However, some departments have reported the following losses to us for 2003-04.

Departments	Cash	Property	Recoveries	Total
Environment and Labour	$ 120	$ 550	-	$ 670
Justice	2,254	-	-	2,254
Public Service Commission	-	7,495	-	7,495
Service Nova Scotia and Municipal Relations	46	-	-	46
Tourism and Culture	4,060	-	-	4,060
Total Reported	**$6,480**	**$8,045**	**-**	**$14,525**

CONCLUDING REMARKS

3.51 In the past year, there has been a great deal of public and media attention on matters reported to the Parliament of Canada regarding the controls and other activities related to the Federal "sponsorship" program. The magnitude of such matters, in relative monetary terms, in Nova Scotia equates to less than $1 million per year. The question that needs to be asked is whether Nova Scotia's public sector management and control systems and processes are sufficient to prevent or detect such issues.

3.52 Good systems and controls can be costly, while too many or less than optimized controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.

3.53 The government has a number of significant systems and control initiatives in process at this time. The capacity of existing resources assigned to these initiatives needs to be monitored effectively in order to achieve successful results and outcomes.

OFFICE OF ECONOMIC DEVELOPMENT'S RESPONSE TO PROCUREMENT ADMINISTRATIVE REVIEW SECTION

The Office of Economic Development is pleased that the Auditor General has undertaken a study of the procurement system. The feedback provided by the Office of Auditor General will help OED and the Procurement Branch better manage the *procure to pay* process that services the Province of Nova Scotia.

As noted, a comprehensive report was undertaken by KPMG. This report, titled *Province of Nova Scotia Administrative Review of the Procure to Pay Process Stream*, concentrated on the procurement of goods, services and constuction. This report is detailed and comprehensive. It examined all aspects of the Province of Nova Scotia's *procure to pay* process, including approval; requisition; purchasing; receiving; payment; reporting; and compliance reviews.

A cross-government working committee has been established to provide feedback and direction on the recommendations put forward by the Auditor General and the KPMG report.

In the near term, the Procurement Branch has taken and is planning to take a number of steps to tighten control on the use of Alternative Procurement.

Department Audits

4 NOVA SCOTIA BUSINESS INC. - PAYROLL REBATES

BACKGROUND

4.1 Nova Scotia Business Inc. (NSBI) is a Provincial crown corporation which was created in April 2001; after the Nova Scotia Business Incorporated Act was given Royal Assent on November 30, 2000. Regulations governing NSBI activities were passed in November 2001. The Corporation has a 13 member Board of Directors comprised of individuals from various areas of the private sector.

4.2 NSBI's main goal is "*to expand business activity in Nova Scotia.*" The corporation identifies four main lines of business: business attraction; business retention and expansion; trade promotion; and lending and finance. One way NSBI achieves its goals is through the use of payroll rebates. The payroll rebate program is "*... a program funded through strategic investment funds, by which a portion of the taxes collected from a business, by the Province, are returned based on a percentage of the total payroll of the business.*" (NSBI Financial Assistance Regulations 2(1)(n))

4.3 Payroll rebates are paid from NSBI's Strategic Investment Fund. Payments are made in arrears after the company has demonstrated that they have achieved the terms and conditions set out in the signed payroll rebate agreement document. Typically, these arrangements cover periods from three to seven years. (See Exhibit 4.1 on page 38 for rebate payments by fiscal year.)

4.4 Rebate payments and accruals for 2003-04 totaled $13.5 million. Additional rebate commitments of $22.5 million to 13 companies were also approved during 2003-04. NSBI's 2003-04 Annual Report notes that these rebate commitments are expected to create between 2,297 and 3,327 jobs over the life of the agreements. Direct Provincial personal income tax revenues from those jobs are expected to total over $37 million; resulting in a net positive impact on the Province's revenues. See Exhibit 4.2 on page 38 for estimated future direct tax recoveries and payroll rebate payments.

4.5 At March 31, 2004, NSBI had 28 approved payroll rebate agreements in place with maximum future payments of $65.6 million. This was our initial broadscope examination of payroll rebates and of NSBI itself.

RESULTS IN BRIEF

4.6 The following are the principal observations from this audit.

- NSBI has adequate policies and procedures regarding the financial management of the payroll rebate program and demonstrates due regard for economy. Since NSBI's inception, improvements have been made to the payroll rebate program;

including a terms and conditions section in rebate agreements that typically addresses several areas such as number of jobs to be created and average salary.

NSBI management informed us that they are revising the standard terms and conditions for payroll rebate agreements. We have recommended that NSBI clarify what is required by the *external auditor's certificate* and develop wording to ensure these certificates will provide the desired level of assurance.

- Overall, NSBI's process for identifying, researching and approving potential rebate clients is well-managed. One area where we have recommended improvements is in the documentation of procedures for the risk assessment of prospective clients.

  NSBI does not formally inquire whether all rebate clients are in receipt of additional government funding although repeat clients are asked to indicate non-NSBI sources of funding. We have recommended that NSBI include this information in rebate proposal documents to ensure its Investment Committee, Board and the Executive Council have a complete financial picture of prospective clients.

- NSBI's monitoring of payroll rebate agreements in progress was found to be appropriate. Improvements are required to longer-term monitoring of rebate clients once the agreements have expired. Management informed us they are implementing an account management system which will allow tracking of rebate clients and we encourage NSBI to continue working towards implementing this system.

- NSBI's verification and documentation of recipients' compliance with payroll rebate agreements was found to be adequate. No problems were noted with the disbursement process and NSBI staff involved had a good understanding of requirements. However, there are no written guidelines for rebate disbursements and we have recommended that NSBI formally document disbursement procedures.

- Overall, NSBI has policies and procedures in place to ensure compliance with legislation and regulations. We noted one area where NSBI was not fully compliant with regulations and recommended that NSBI comply in the future.

AUDIT SCOPE

4.7 The objectives for this assignment were to:

- document the payroll rebate process and assess the adequacy of NSBI's policies and procedures regarding the financial management of the payroll rebate program;

- assess whether NSBI demonstrates due regard for economy in the financial management of the payroll rebate program;

- assess the adequacy of NSBI's verification and documentation of recipients' compliance with payroll rebate agreements; and

- assess whether NSBI has policies and procedures in place to ensure compliance with legislation and regulations.

4.8 Our approach was based on interviews, review of payroll rebate agreements, disbursements and other documents. Criteria were developed from recognized sources including Office of the Auditor General of Canada's *Financial Management Capability Model Application Guide*, Treasury Board of Canada Secretariat's *Policy on Transfer Payments* and NSBI Act and Regulations.

PRINCIPAL FINDINGS

Financial Management

4.9 Summary - We assessed the adequacy of NSBI's policies and procedures regarding the financial management of the payroll rebate program and whether NSBI demonstrates due regard for economy. We noted that overall, roles and responsibilities are well understood. All approved rebates have written agreements which clients must sign in order to receive funds. NSBI's Board of Directors receives appropriate information to monitor rebate clients over the life of the agreements. We have recommended formal documentation of procedures in certain areas as well as improvements to long-term monitoring of rebate clients.

4.10 Payroll rebate process - Exhibit 4.3 provides information on NSBI's governance and organization which may be useful in gaining an understanding of divisions involved in the payroll rebate process. We reviewed five recent payroll rebate files with maximum rebate payments of $25.6 million over the life of the rebate agreements. Based on this review, as well as discussions with staff at NSBI, we noted NSBI uses the following process in identifying, researching and approving payroll rebate clients.

- *Identification of potential client* - NSBI has Business Development Executives (BDEs) who research potential clients and begin negotiations that may lead to payroll rebates being awarded. In some cases BDEs contact prospective clients. Alternatively, interested companies may contact NSBI and be referred to the Business Development division.

- *Risk assessment* - A risk assessment is completed for each payroll rebate client. The assessment reviews risk in five areas: industry, management, financial, ability to access funds and environment. Assessments were typically completed by Financial Services staff. At the time of our audit, there was confusion among NSBI staff regarding whether future responsibility for this task would remain with Financial Services or move to Business Development. Management informed us that responsibility is staying with the Financial Services division since they have the expertise to complete the necessary procedures.

Management noted that they are confident a full risk assessment is completed for all clients. However, there is no documented process for the preparation of risk assessments. Certain staff utilize checklists and scoring while others do not. Formal documentation of required procedures would help ensure that the risk assessment process is completed consistently for each client.

- *Economic impact* - NSBI provides the Nova Scotia Government's Department of Finance (DOF) with information on the number of jobs rebate clients expect to create and anticipated salary levels. DOF determines expected economic impact, both direct and spin-off. BDEs utilize economic impact data to calculate return on investment for the proposed rebate. This information forms part of the proposal which the Investment Committee and Board of Directors review prior to making their decision.
- *Proposal preparation and review* - Business Development Executives with NSBI prepare rebate proposals for presentation to the Investment Committee of the Board. Proposals include information on the prospective client, suggested terms and conditions of the agreement and return on investment to the Province.
- *Approvals* - The Investment Committee of the Board reviews rebate proposals and makes recommendations to the Board for approval, rejection or approval with amendments. All Investment Committee decisions must be ratified by the Board. Once a rebate proposal has been approved by the Board, the proposal and supporting documentation are reviewed and approved by the Minister of the Office of Economic Development and submitted to Executive Council for final approval via Order in Council.

Recommendation 4.1

We recommend that NSBI develop written procedures for the risk assessment process to ensure it is completed consistently for each payroll rebate client. Consideration should also be given to whether staff should be required to utilize common checklists to ensure consistency in assessing the risk of each potential client.

4.11 Typical payroll rebate agreement - Since its inception in 2001, NSBI has made improvements to the terms and conditions for new payroll rebate agreements. At the time of our audit, NSBI management informed us that they were revising the standard rebate agreement to ensure there are certain standard clauses for all agreements as well as areas which could be edited based on the particular client.

4.12 Typical rebate agreements include a letter of offer and terms and conditions which clients must sign and return to NSBI to finalize the rebate agreement. In our review of payroll rebates, we noted that more recent agreements included:

- definition of full time equivalent (FTE) hours;
- minimum number of FTEs which must be employed to qualify for the rebate, and, where applicable, maximum FTEs for which a rebate can be paid out;
- period of the agreement and percentage rebate;
- minimum annual salary, including benefits;
- supporting documentation clients must provide to demonstrate compliance with the agreement; and
- requirement for an *external auditor's certificate* certifying gross payroll, number of employees and hours worked (this is discussed further in paragraphs 4.22 to 4.24 of this Chapter).

4.13 Review of pre-NSBI rebate agreement file - We reviewed one older payroll rebate agreement which was approved prior to NSBI's inception. We noted that documentation requirements for newer rebate agreements were more stringent than those in the older file. For example, the older agreement did not include any performance conditions such as number of jobs to be created in order to qualify for a rebate.

4.14 Monitoring - Monthly reports to the Board include information on forecast payments by rebate agreement for that fiscal year, jobs created and total expected rebates. Since rebates are paid in arrears, this level of monitoring is appropriate.

4.15 At the time of our audit, NSBI did not have a process to follow up completed rebate agreements. However, management informed us that they are implementing an electronic account management system which will allow electronic documentation of all clients and include tracking of long-term success of rebate clients.

4.16 We suggest NSBI continue with its plans to improve long-term tracking of rebate clients to provide better information on the overall success of payroll rebates as a tool for business attraction and retention in Nova Scotia. Further, NSBI should consider including longer-term reporting requirements in payroll rebate agreements requiring clients to submit information to NSBI beyond the rebate period.

4.17 Government assistance - With the exception of repeat clients, we noted that NSBI does not formally inquire whether potential clients are also receiving other sources of government funding. This could potentially result in an incomplete financial picture. In some cases, rebate approval might be contingent on the client receiving funding from other sources, including other government sources. NSBI staff indicated that in these situations, they require confirmation of other funding.

Recommendation 4.2

We recommend that NSBI determine whether potential rebate clients are in receipt of or will receive other forms of government assistance for the same project and verify funding where applicable. This information should be provided in rebate proposal documents to ensure NSBI's Investment Committee, Board and the Executive Council have a complete financial picture of prospective clients.

Compliance

4.18 Summary - We assessed NSBI's verification and documentation of recipients' compliance with payroll rebate agreements and found its processes to be adequate. There was evidence of review of supporting documentation and approval by NSBI staff prior to disbursements being made.

4.19 Overall, NSBI appears to have policies and procedures in place to ensure compliance with legislation and regulations. We noted one area where NSBI was not fully compliant with regulations and recommended that NSBI comply in the future.

4.20 Disbursement process - Payroll rebate disbursements are paid in arrears following a request for payment by the rebate client. NSBI staff review the original rebate agreement terms and conditions and verify that the client has provided the required supporting documentation. The Director of Corporate Services reviews the request for payment as well as the supporting documentation and must approve the request prior to a disbursement being made. Payments are made based on the terms and conditions which the Investment Committee and the Board approved at the time the rebate agreement was implemented. Generally, an NSBI staff member delivers the cheque to the rebate client. This provides an opportunity for an informal review of the company's operations.

4.21 NSBI does not have any formal, written procedures for rebate disbursements. Although staff demonstrated a good understanding of the steps in the disbursement process, written guidelines would help promote consistency among staff.

Recommendation 4.3

We recommend that NSBI formally document procedures for payroll rebate disbursements.

4.22 Supporting documentation - For pre-NSBI rebate agreements, disbursement requests were typically accompanied by client-generated documents noting numbers of jobs created and associated salaries. Rebate agreements under NSBI have terms and conditions which require an *external auditor's certificate*. We reviewed three disbursements on rebate agreements signed since NSBI's inception. We noted that two files included audit reports on total payroll and employees while the remaining file had a special purpose, specified procedures report, signed by a public accountant, stating payroll information had been agreed to the pay register.

4.23 We were informed that NSBI is revising standard agreement sections for rebate terms and conditions. These standard sections should address whether audit level assurance is required or if specified procedures reports are acceptable. If management determines that specified procedures reports are sufficient, the specific procedures required should be clearly stated. This would allow NSBI to ensure it has a consistent level of assurance for all rebate disbursements. NSBI may wish to consult with its external auditor for assistance in determining the appropriate level of assurance.

4.24 During our audit, NSBI management identified a recent disbursement that was made without an audit certificate. Although the terms and conditions required an "*auditor's certificate certifying gross wage or payroll bill…and the number of employees and hours worked*", the client's understanding was that an internal report was sufficient. The Board and Investment Committee were not consulted prior to the disbursement being made. This payment represented the initial disbursement on an agreement. No further disbursements had been made at the time of our audit. The client has requested a renegotiation of the terms and conditions. NSBI management informed us that any amendment to the original agreement will clearly state that an external audit certificate is required.

Recommendation 4.4

We recommend that NSBI finalize revised wording for standard rebate terms and conditions. The level of assurance required from an external auditor or procedures to be performed to verify a company has met the terms and conditions necessary for rebate disbursement should be clearly stated.

4.25 Testing results - We tested five recent rebate disbursements totaling $4.7 million. Maximum rebate payments over the life of these five agreements total $29 million. We noted that supporting documentation was provided as specified in the original terms and conditions for each rebate agreement and NSBI staff signed off on the disbursements as required.

4.26 Financial statement audit - As part of our work, we reviewed the files of NSBI's financial statement auditors for background information purposes. The auditors tested controls for rebate disbursements and concluded that those controls were operating properly. There were no significant findings reported from that audit.

4.27 Legislation and regulations - We reviewed NSBI's policies and procedures regarding compliance with legislation and regulations. For the most part, NSBI is in compliance with legislation and regulations. We noted one exception: rebate policies and guidelines are not included in the annual business plan as required by NSBI Regulations.

Recommendation 4.5

We recommend that payroll rebate guidelines and policies be included in NSBI's annual business plan as required by Regulations.

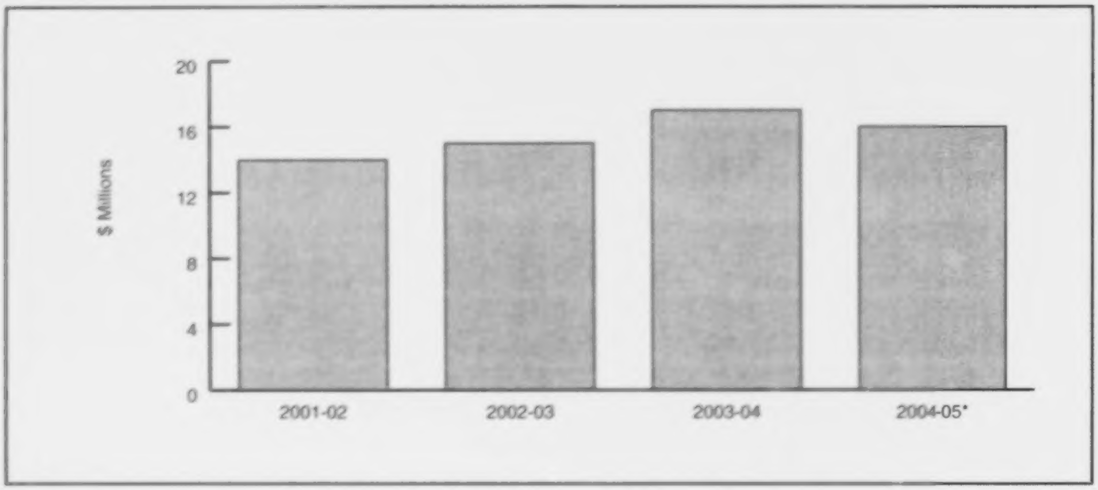
CONCLUDING REMARKS

4.28 Since NSBI's inception, improvements have been made to the Province's payroll rebate program. NSBI has adequate policies and procedures in place to support the financial management and control of the rebate program. We have made recommendations that certain of these processes should be more formally documented.

4.29 NSBI is required to submit a performance report in late 2006 against its five-year strategic plan (2002-07). The performance of its payroll rebate program will need to be a significant element of that report.

Exhibit 4.1

Annual Payroll Rebate Expenditures

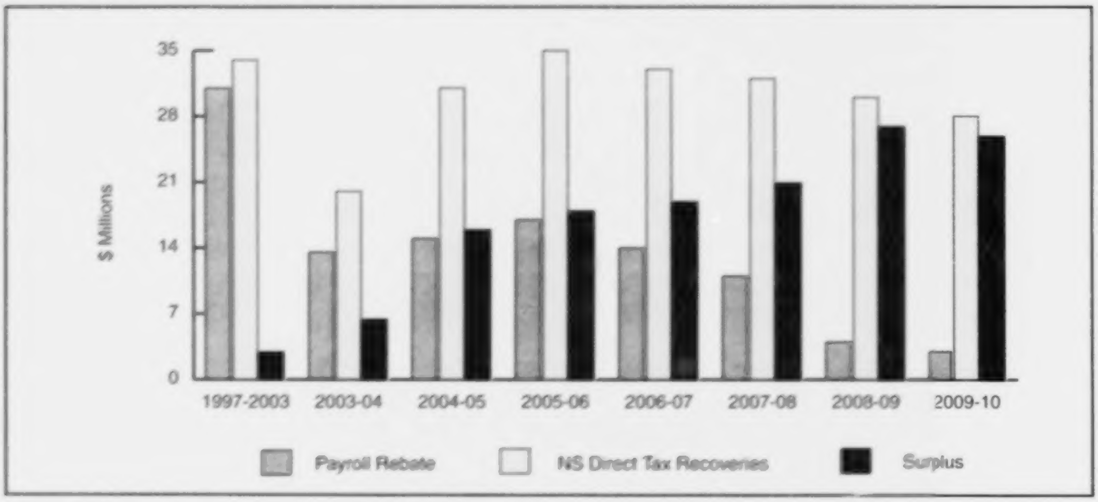


*Estimate

Source: Nova Scotia Business Inc.

Exhibit 4.2

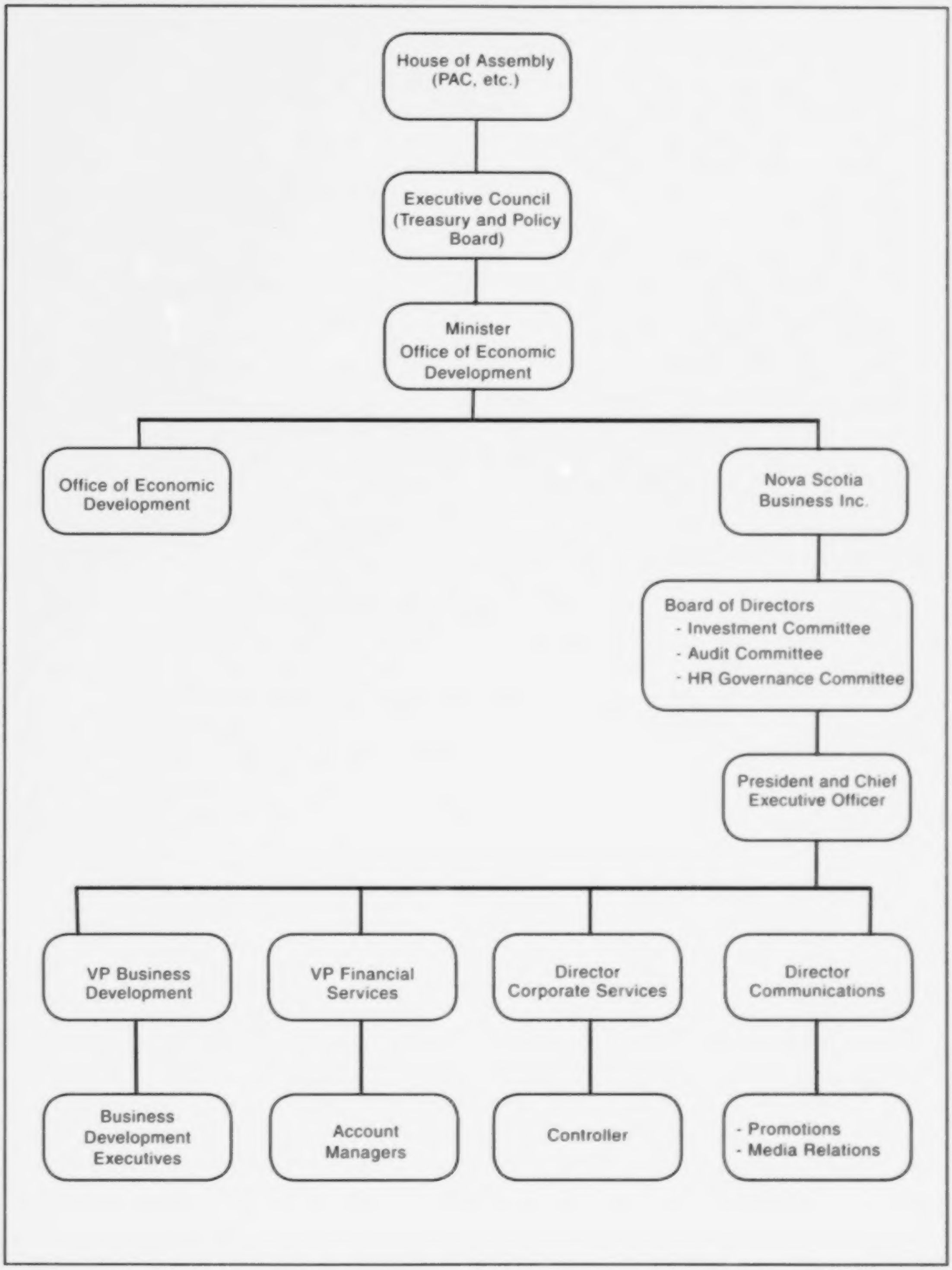
Payroll Rebate Expenses and Expected N.S. Direct Tax Recoveries



Note: *Payroll rebate expenses are estimates for fiscal years 2003-04 to 2009-10. Expected direct tax recoveries and surplus are based on estimates for all fiscal years.*

Nova Scotia Business Inc. - Governance and Organization Chart

Exhibit 4.3


House of Assembly (PAC, etc.)
Executive Council (Treasury and Policy Board)
Minister Office of Economic Development
Office of Economic Development
Nova Scotia Business Inc.
Board of Directors
- Investment Committee
- Audit Committee
- HR Governance Committee
President and Chief Executive Officer
VP Business Development
VP Financial Services
Director Corporate Services
Director Communications
Business Development Executives
Account Managers
Controller
- Promotions
- Media Relations

NOVA SCOTIA BUSINESS INC.'S RESPONSE

Thank you for the opportunity to comment on the Payroll Rebate Audit report. Nova Scotia Business Inc. (NSBI) is supportive of the findings and recommendations. NSBI is pleased that the report indicates that the policies and procedures are adequate and that the changes implemented by NSBI have improved the delivery of the Payroll Rebate. We strive to continue to improve it and would like to comment on the recommendations.

Recommendation 4.1

We currently employ a process that ensures the relevant risk factors to a Payroll Rebate are considered. Credit risk is an important consideration for the Payroll Rebate, but the risk assessment is different than that for loans as it targets the opportunity cost of client non-performance. We agree that written procedures relating specifically to the Payroll Rebate would be beneficial and would distinguish the process from that which is outlined in the detailed risk assessment procedures for loans.

Recommendation 4.2

We agree that other forms of government assistance can be an important consideration when determining the risks associated with a Payroll Rebate client. While we have indicated other known government assistance in the past, NSBI will make a change to the current proposal format to ensure this factor is specifically identified. All known and relevant forms of government assistance relating to the same project will be documented.

Recommendation 4.3

NSBI will draft procedures outlining the steps currently used in the disbursement process. These procedures will augment the Board approved disbursement policy and account manager checklist currently employed.

Recommendation 4.4

The recommendation to improve the wording of the level of assurance required from the external auditor is appreciated and NSBI has implemented the change.

Recommendation 4.5

The payroll rebate guidelines will be included in the upcoming NSBI annual business plan.

We would like to thank the team that provided the Payroll Rebate Audit report. Your advice on improving the Payroll Rebate is appreciated and we will continue to seek advice as more improvements are made.

5

PENSION ASSET MANAGEMENT AND GOVERNANCE OF RETIREMENT BENEFITS

BACKGROUND

5.1 Pension, retirement and other obligations are a significant liability to the Province. On a consolidated basis, the net accrued liability was $1.3 billion at March 31, 2004 (2003 - $1.3 billion). Interest costs related to these obligations (included in debt servicing costs on the Province's statement of operations) totaled $86 million in 2004 (2003 - $65 million). These interest costs were offset by a net expense recovery (or pension valuation adjustment, as it is described on the statement of operations) of $14 million in 2004 (2003 - $152 million).

5.2 Note 6 to the Province's March 31, 2004 consolidated financial statements describes the various pension, retirement and other obligations included in the liability. The table in Exhibit 5.1 lists the more significant of these obligations, and provides details of related legislation or authority, and benefit recipients.

5.3 Note 6 also details financial activity throughout the year, summarized between activity in pension benefit plans, and activity in other benefit plans. Exhibit 5.2 summarizes the obligations and assets of the plans as at March 31, 2004, as well as the net obligation as at March 31, 2003.

5.4 In Chapter 2 of the 2003 Report of the Auditor General, we provided an introduction to the administration of and accounting for these obligations. In accordance with the Office's 2004 Business Plan, we initiated an examination of selected aspects of pension, retirement and other obligations. This examination was conducted under Section 8 of the Auditor General Act.

RESULTS IN BRIEF

5.5 The following are the principal observations from this assignment.

- Assets available to fund the Province's pension plans totaled $7.3 billion at March 31, 2004. A Statement of Investment Policies and Goals (Statement) was established several years ago to provide guidance on the management of these assets. Changes to the Statement should be formally approved by the Minister of Finance as Trustee.

- An Investment Advisory Committee (IAC) has been in existence since as early as the 1980s to provide advice on asset mix and management of funds to the Minister of Finance as the plans' Trustee. Recent changes in asset mix approved by the IAC indicate that the role of the committee has moved beyond that of advisory. We have recommended that the IAC adhere to its role as advisor to the Trustee. We have also recommended that the committee consider expanded use of external consultants to corroborate its suggested changes to investment strategies.

- We tested internal controls over the recording and monitoring of transactions. We found no errors in our testing.
- External investment managers manage the entire equity portfolio and a portion of the fixed income portfolio of the plans. Individual contracts with these managers specify their mandates. We have recommended that a formal system be established to monitor compliance with these mandates.
- There is a well-established system for reporting investment performance. We tested the support for this system and found no errors. Finance management should continue its efforts to establish a performance management system for all aspects of pension administration.
- Governance arrangements for the two most significant pension plans (Teachers' Pension Plan and Public Service Superannuation Plan) are under review. Protocols established as a result of these reviews should include sufficient, appropriate reporting to the plan trustee or administrator.

AUDIT SCOPE

5.6 Our summary objective was to assess the overall governance, accountability, management and control arrangements as they relate to aspects of the administration of pension and other retirement benefits, in order to conclude on the adequacy of:

- compliance with statutory and other enabling authorities or requirements;
- control systems, procedures and practices; and
- due regard for economy and efficiency.

5.7 Specific objectives and criteria were identified for each of the selected areas. These criteria were provided to and reviewed with Department of Finance management. The period covered by our audit testing was January to December 2003.

5.8 Subsequent to initiating this examination, we were informed that Finance was contracting with a private sector firm to audit the governance and control frameworks for treasury and pension-related areas of the Department. The results of that audit were to be released in fall 2004 along with the Department's action plan to address various recommendations.

5.9 In light of the scope of Finance's own audit initiative, we agreed to make appropriate adjustments to our plans and schedule. The results of our examination included in this chapter should be considered in conjunction with the audit results and recommendations of the private sector firm.

PRINCIPAL FINDINGS

Asset Management

5.10 As at March 31, 2004 the market related value of assets included in the consolidated financial statements of the Province available to fund pensions and other retirement benefits was $7.3 billion ($6.6 billion as at March 31, 2003). As can be seen in Exhibit 5.2, $7.2 billion, or 98% relates to two pension plans ($3.2 billion to Public Service Superannuation Plan and $4.0 billion to Teachers' Pension Plan). We focused our attention on systems, controls and practices related to these amounts.

5.11 Exhibit 5.3 is extracted from the most recent audited financial statements of the funds related to each of the plans, and details the composition of these assets.

5.12 Roles and responsibilities - A Statement of Investment Policies and Goals was established several years ago by senior management at the Department of Finance to provide guidance for those involved in asset management for the plans. The groups identified in the Statement are the Investment Advisory Committee (IAC), Pensions and Investment Branch staff, internal and external investment managers, the asset custodian, and consultants.

5.13 These groups, as well as their roles and responsibilities, are defined in the Statement. Comments related to these groups are noted beginning in paragraph 5.14 below. With respect to the Statement of Investment Policies and Goals we have the following observations.

- Management noted that the document is constantly under review, and changes were made to the Statement during the period of our examination. We noted that the minutes of the Investment Advisory Committee (IAC) reflect discussion of changes to be made to the Statement, but no formal approval of the revised policy for recommendation and approval by Trustee, is noted.
- The Statement reflects decisions made on asset management matters, such as rates of return and asset mix, but not on overall risk tolerance for the Plans' assets. It was indicated to us that the risk tolerance can be inferred from the approved asset mix.

Recommendation 5.1

We recommend that changes to the Statement of Investment Policies and Goals should be formally approved by the Investment Advisory Committee for recommendation to and approval by the Trustee. In addition, the Statement should explicitly state the overall risk tolerance or refer to an overall risk management plan.

5.14 The role of the IAC is defined in the Statement of Investment Policies and Goals as advisory. Overall primary fiduciary responsibility for each of the plans rests with its Trustee (i.e., the Minister of Finance). We have the following comments regarding the IAC.

- A recommendation was made and approved by the Committee in February, 2003 to allocate 7% of the plans' assets to real estate. This represents a significant change in the asset mix (approximately $420 million). There is no indication that the Minister of Finance was advised of, or approved, this decision at the time it was made.

- Formal terms of reference for the Committee need to be developed and approved. Draft terms of reference were developed in 1992, and the intent of these appears to be captured in the Statement of Investment Policies and Goals, but there is no indication that these were approved. The terms of reference should address roles and responsibilities as well as administrative matters such as quorums, voting privileges, etc.

- The Statement notes that the IAC is to provide an annual report to the Minister, although the content of such a report is not noted. An annual report has not been prepared for several years (most recent was in 1999). Senior management indicated that the plans' annual reports released in July 2004 satisfy this requirement. If this is the case, the Statement should be updated to remove this requirement.

- Suggestions regarding alternative investments are being presented to the IAC by Finance staff, or are initiated by the IAC itself and investigated by staff. External consultants are used infrequently to support the suggested strategies. One example where the advice of a consultant could have been sought was in January 2003. At that time, the IAC approved a staff recommendation to invest in fixed income derivatives. This decision was made by the IAC, contrary to its role as an advisory committee.

Recommendation 5.2

We recommend the Investment Advisory Committee adhere to its role as an advisory committee to the Minister. Formal terms of reference should be developed and approved for the Committee, and updated periodically as appropriate.

Recommendation 5.3

We recommend the Investment Advisory Committee should consider increased use of external consultants to corroborate changes to investment strategies suggested by Department of Finance staff.

5.15 Internal controls - In the 2001 Report of the Auditor General, we reported on the results of a review of the Treasury Management System (TMS) at the Department of Finance. This focused specifically on the Millennium software package which was purchased "*... to assist Branch staff in the management of the cash, investments and debt ...*".

5.16 The Millennium system is used to record fixed income and money market transactions related to the pension plans. Transactions posted to the Millennium system must also be manually posted to government's central SAP financial system, since there is no electronic interface between the two systems.

5.17 During this year's assignment, we tested internal controls over the authorization, processing and recording of fixed income and money market transactions for the pension plans. Our procedures focused on transactions recorded on TMS, and we found no errors in the processing and recording of the transactions we tested. However, because transactions are authorized subsequent to their input into TMS, it is possible that an improper transaction could be processed. We recognize that this situation may not be entirely avoidable given the real-time nature of most investment market transactions, but suggest that controls be established to ensure proper and timely authorization. An example of such a control may be pre-authorization of transactions over a certain limit.

5.18 In addition, we tested the results of the monthly reconciliation process between TMS and statements provided by the asset custodian. Again, there were no errors noted in our sample items.

5.19 Although we found no errors in our testing, we reiterate the suggestion made in the 2001 Report of the Auditor General that improvements could be made in the transaction processing cycle by implementing a direct link to SAP. This would limit errors inherent in manual transcription of data.

5.20 Finally, we conducted tests to determine the accuracy of the reconciliations performed by the asset custodian. These reconciliations compare the custodian's balances with those of the external investment managers, and are prepared by the custodian on a periodic basis throughout the year. We found no errors in our testing.

5.21 Performance management - There is an established system for monitoring and reporting overall and total asset performance of the plans and investment manager.

5.22 Several reports detailing various aspects of performance are provided to members of the Investment Advisory Committee each month. For example, one report details individual investment manager results, including related benchmark information. We tested the support used to prepare this report for several months during 2003, and found no errors.

5.23 In addition to the internal monitoring and reporting system, the Branch also uses the services of an external consultant to evaluate the performance of the pension asset portfolio against other similarly-sized portfolios. A formal evaluation is performed bi-annually which compares the plans' results with those of other participants. Data on the other participants is provided every year. Management informed us that there is only one consultant providing this service and consequently the service is not tendered.

5.24 We reviewed the executive summary provided in the most recent report dated September 2003 from this consultant and noted the plans' assets performed as well as or better than their peer group in three of four categories. The plans measured considerably lower than the peer group in one category which was implementation risk (i.e., the risks associated with active vs. passive portfolio management). Management informed us this is consistent with the overall conservative philosophy of the Branch and the IAC, which is reflected in the portfolio.

5.25 Service providers - The equity portfolios of the pension plans (about $3.9 billion) are managed by external investment managers. Approximately 20% of the fixed income portfolios (about $450 million) is managed by an external manager with the remainder (about $1.6 billion) managed by a fixed income manager on staff at Finance. An outside consultant is used by the Branch in the selection of the external investment managers. The other significant service provider involved in asset management is the asset custodian.

5.26 We have the following observations with respect to the arrangements with the service providers.

- Compliance - In addition to what is noted in the Statement of Investment Policies and Goals, the mandate and responsibilities of the external managers are detailed in the contracts with them. We understand a standard contract is provided to each manager, modified in each case to reflect the specifics of the related mandate (e.g., Canadian equities). There is also a contract in place between the Province and the asset custodian.

  There was no formal system in place to monitor contractual compliance for either the asset custodian or the external managers. During the course of the audit we noted compliance with significant aspects of the contracts (e.g., monthly reports being provided as of a certain date). However, our procedures did not cover whether the external managers are making investments in accordance with each of their mandates.

  There was no formal system to monitor compliance with individual external investment manager mandates (e.g., that transactions occur only within the specified mandate). Although some managers provide periodic representation that they are in compliance with their individual contracts, this representation is not used as part of a control system at Finance to monitor compliance.

  Management noted that a system to monitor compliance has been implemented during 2004. We have not verified the existence or components of this system.

- Procurement - It was indicated that an external consultant has been used in the past during the process to select an external manager. We tested the process used in the hiring of the most recent managers and found that the external consultant's services were used in only one of five instances. Finance management indicated that there were mitigating circumstances in each situation where the external consultant was not used. In each instance, the IAC approved the selection recommended by staff.

  We also discussed the process used to hire the asset custodian. This contract has been in place for several years and management indicated there are no plans to tender the custodian services at this time.

- Performance - The mandate of each external manager includes a benchmark (e.g., TSX 300) and an investment return objective. This information is tracked as part of the overall monthly performance reporting provided to the IAC. External managers not meeting the specified investment return objective are placed on a *watch list*. Management should consider establishing guidelines to specify when a manager is to be replaced due to poor performance or removed from the *watch list* due to improved performance.

Recommendation 5.4

We recommend that a system to formally monitor compliance with contractual requirements and mandates of external investment managers should be established.

Governance Arrangements

5.27 Roles and responsibilities - In the 2003 Report of the Auditor General (see Chapter 2, paragraphs 2.26 to 2.39), we provided a brief description of the groups involved in the governance and administration of the Teachers' Pension Plan (TPP) and the Public Service Superannuation Plan (PSSP). In Exhibit 5.4, we expand that description to include details related to other retirement obligations.

5.28 Our current audit focused on the most significant of these plans. As can be seen in Exhibit 5.2, these are the Public Service Superannuation Plan (PSSP), Teachers' Pension Plan (TPP) and retirement health benefits related to each of these plans.

5.29 The role of the Investment Advisory Committee (IAC) relates only to asset management for the two funded plans (TPP and PSSP). Our observations and recommendations on this Committee are noted in paragraph 5.14. With respect to other groups, we note the following.

- We understand the governance arrangements for the TPP are under review as part of an overall review of funding arrangements for the plan. This review is required under the 1993 agreement between the Province and the Nova Scotia Teachers' Union (NSTU).

The Teachers' Pension Partners' Board is the entity through which the terms of the agreement between the NSTU and the Province are exercised. One purpose of the Board is to make recommendations for changes to the plan to the Minister (as the plan's trustee). There are terms of reference for the Board but these do not include any regular reporting to the Minister.

- Governance arrangements have not been formally established for the Public Service Superannuation Plan. The Public Service Pension Forum was formed in 2003 to serve as a communication vehicle for plan stakeholders. Members of the Forum are representatives from the Province (as plan sponsor), and current and retired representatives from the Nova Scotia Government Employees Union (NSGEU) and the Canadian Union of Public Employees (CUPE). Members of the Forum meet infrequently and are not involved in recommending plan changes to the Minister. We understand a working committee of the Forum has been established within the past year with the intent of reviewing current governance arrangements.

- Day-to-day administration of retirement health benefits provided to retired civil servants and various other PSSP recipients is through an external service provider. Overall administration is through the Public Service Commission (PSC). An informal inter-departmental committee (Health and Dental Committee) meets during the year to discuss rate changes. Revised rates are to be approved by a Pension and Benefits Committee. The purpose of this Committee is to review and recommend on administrative aspects of pensions and other benefits to the Deputy Ministers of Finance and the PSC, who are both members of the Committee. A recommendation approving proposed rate changes was made to the Deputy Ministers in a memo from the Committee members dated July 2003.

- The oversight function for retirement health benefits for teachers is performed by the NSTU Group Insurance Trustees. There are six trustees appointed by the Union. Two limited trustees can be appointed from the Department of Education; at present, only one of these appointments is currently filled. The Trustees meet each month to discuss and vote on changes such as additional approved drugs for both active and retired members. It should be noted that the Province funds 100% of retirement health benefits for retired teachers (versus the 65%/35% Provincial/retiree contributions for PSSP-related retirement health benefits).

- Job descriptions for management at the Department of Finance involved in the administration of pension plans appear to adequately describe roles although some need to be updated to reflect current Departmental structure. Job descriptions should also be updated to reflect reporting responsibilities.

- Quarterly reporting to the Minister of Finance detailing the funded status, membership, investment returns and the status of governance discussions with stakeholders of the pension plans has recently been initiated by senior management. Management and staff informed us there is regular, informal reporting of pension activities within the Division.

Recommendation 5.5

We recommend that the control framework related to pension and other retirement obligations should be formalized as required. Committees involved in the monitoring and/or approval of benefits should provide regular reports to the plan trustee or administrator.

5.30 Performance management - We discussed objectives and performance measures for components of pension plan administration with management of the Pensions and Investment Branch of the Department of Finance. Our comments on each of these components are as follows.

- Legislative compliance - Management indicated this is to be nothing less than 100%. One area of non-compliance which has been resolved in the past year is the preparation of an annual report for the PSSP as required by its Act. An annual report has also been prepared as at December 31, 2003 for the TPP. The annual reports for both plans were released in July 2004.

- Plan funding - The Department of Finance Business Plan for the current and preceding two fiscal years notes the target of the plans is to be 100% funded. The plans' annual reports note that the funded ratio of the TPP and PSSP are 81% and 86%, respectively, at December 31, 2003, the date of the most recent actuarial valuations. We suggest that targets for funding of the plans be set over a number of years toward achieving the ultimate goal of 100% funding. These targets should be included in annual or other reporting of the plans.

- Benefits administration - Objectives and performance measures have not been established for this component. An external consultant completed a benchmarking analysis on benefit administration in April 2004. Management indicated the results of this analysis will be used to develop objectives and measures in this area.

- Asset management - An expected or planned rate of return on assets is established as input to the actuarial review processes for the plans. We noted that management and staff of the investment side of the Pensions and Investment Branch had not been involved in determining this assumption. The rate had been determined by the pension administration side of the Branch. We were told that recent administrative changes within the Branch should lead to input by investment personnel in determining this rate in the future.

Recommendation 5.6

We recommend that management should continue to develop a sufficient and appropriate performance management system for the administration of pension and other retirement obligations.

CONCLUSION

5.31 The magnitude of the financial obligations and assets associated with the various pensions and other retirement benefit plans warrants improvements being made to, and formalization of, governance and management control processes.

5.32 In addition to matters discussed in this chapter, government needs to ensure the results and recommendations of the audit commissioned separately by Department of Finance management, of the governance and controls in the pension and treasury areas of its operations, are appropriately addressed on a timely basis.

Details of Pension, Retirement and Other Obligations, and Recipients

Exhibit 5.1

Benefit plan	Related Legislation or Authority	Recipient
Pensions:		
Teachers' Pension Plan (TPP)	Teachers' Pension Act	Public school and some community college teachers
Public Service Superannuation Plan (PSSP)	Public Service Superannuation Act	Employees of the Province and certain other public sector entities
Various pension plans of the former Sydney Steel Corporation (SYSCO)	Sydney Steel Corporation Sale Act	Individuals covered under the former SYSCO pension plans
Members' Retiring Allowances Accounts (MRAA)	Members' Retiring Allowances Act	Members of the House of Assembly
Other pension plans or other programs	Various	Judges, deputies, and public sector employees retiring under early retirement plans
Retirement and Other Obligations:		
Retirement health benefits	Various	Recipients under TPP, PSSP, SYSCO, MRAA, and employees of the Capital District Health Authority
Retiring allowances	Various	Public sector employees including those of district health authorities and regional school boards
Other	Various Authorities including: - Nova Scotia Public Service Long Term Disability Plan Trust Agreement - Workers' Compensation Act	Various qualifying employees

Exhibit 5.2 **Net Benefit Obligation**

Benefit	Accrued Benefit Liability March 31, 2004 ($ thousands)	Accrued Benefit Assets March 31, 2004 ($ thousands)	Net Obligation March 31, 2004 ($ thousands)	Net Obligation March 31, 2003 ($ thousands)
Teachers' Pension Plan (TPP)	$4,242,524	$(4,023,986)	$ 218,538	$ 197,243
Public Service Superannuation Plan (PSSP)	3,131,921	(3,233,979)	(102,058)	(134,773)
Other pension plans	352,514	(15,189)	337,325	346,428
TPP – related retirement health benefits	357,213		357,213	326,376
PSSP – related retirement health benefits	155,155		155,155	170,178
Other retirement health benefits	62,318		62,318	58,625
Retiring allowances	246,324		246,324	278,671
Other retirement benefits	337,222	(34,488)	302,734	295,272
Sub-total	8,885,191	(7,307,642)	1,577,549	1,538,020
Net unamortized actuarial (gains)			(259,219)	(205,633)
Total	$8,885,191	$(7,307,642)	$1,318,330	$1,332,387

Composition of Assets

Exhibit 5.3

Asset Class	TPP*		PSSP*	
	Dec 31, 2003 ($ thousands)	Dec 31, 2002 ($ thousands)	March 31, 2004 ($ thousands)	March 31, 2003 ($ thousands)
Money market	$ 343,644	$ 97,419	$ 298,296	$ 72,278
Fixed income	1,096,223	1,229,884	906,666	964,767
Equities:				
Canadian	1,316,372	1,084,296	1,079,231	867,192
US	578,837	530,382	457,792	402,586
Other foreign	279,114	253,346	236,508	176,080
Real estate:				
Canadian	9,356		21,803	
Pooled fund	37,537	35,409	49,325	36,001
Total	**$3,661,083**	**$3,230,736**	**$3,049,621**	**$2,518,904**

* *These details are taken from the most recent audited financial statements of the fund for each plan. Differences between above totals and those reported in the Province's March 31, 2004 consolidated financial statements are due to differences in timing (i.e., TPP fund is as at December 31, 2003) and accounting methods.*

Exhibit 5.4

Roles and Responsibilities

Action	Prepare/Propose/ Inform	Review/Advise/ Recommend to Deciding Authority	Approve/Decide	Execute/Perform
Legislative Changes	Current and retired members	TPPB Staff	Trustee	Staff
Changes to Pension Benefits	Current and retired members	TPPB Staff	Trustee	Staff
Changes to Post-Retirement Benefits	Current and retired members	Service Provider Health and Dental Committee (Re: civil servants)(1)	NSTU Trustees Pension and Benefits Committee(1)	Service Provider PSC (through service provider)
Changes to Asset Mix	Staff IAC	IAC	Trustee	Staff External investment managers
Monitoring of Compliance	Staff PSC	Staff PSC		Staff PSC
Annual Report	Staff		Trustee	Staff

TPPB - Teachers' Pension Partners Board
NSTU Trustees - NSTU Group Insurance Trustees
PSC - Public Service Commission
Staff - Staff of the Pension and Investment Branch, Department of Finance
Trustee - Minister of Finance
IAC - Investment Advisory Committee

(1) Rate changes only

6 CAPITAL DISTRICT HEALTH AUTHORITY

BACKGROUND

6.1 The Health Authorities Act received Royal Assent on June 8, 2000. Section 6(3) of the Act provided for the creation of the Capital District Health Authority (CDHA). CDHA operates 10 health care facilities, including the Queen Elizabeth II Health Sciences Centre, the Nova Scotia Hospital, and the Dartmouth General Hospital. The organization employs approximately 750 physicians and 8,500 nursing, technical and other staff at 31 locations occupying approximately 4.2 million square feet of space.

6.2 CDHA is governed by a single board of directors currently consisting of sixteen members. All members of the Board of Directors are appointed by the Minister of Health. The Finance and Audit Committee, chaired by a Board member, reports to the Board. The day-to-day operations are administered by the Executive Management Team (EMT), consisting of the chief executive officer, eight vice presidents and the Medical Officer of Health.

6.3 CDHA receives the majority of its funding from the Department of Health (DOH). Most of the funding is portable, that is, funds are transferable between programs and capital. However, there is some non-portable funding as well. Non-portable funding is targeted for specific programs and is not transferable to other programs. Section 31 of the Health Authorities Act does not allow District Health Authorities (DHAs) to budget for a deficit.

6.4 The combined entity reported $568.7 million in operating expenditures against $568.8 million in revenues on the March 31, 2004 financial statements for a net operating surplus of $13,000.

6.5 In 1997, the merger of the Victoria General Hospital, Nova Scotia Rehabilitation Centre and Camp Hill Medical Centre into the QEII Health Sciences Centre was followed by the merger of the three auxiliaries active at each site. This merged entity became Partners for Care (PFC). It was created to administer the revenue generating activities of the QEII Hospital. PFC is a not-for-profit organization governed by a separate Board.

6.6 In addition to PFC, there are seven foundations that provide capital funding to CDHA. In fiscal 2003-04 the foundations contributed $1.5 million and PFC contributed $1.25 million to CDHA's capital fund and $2 million to operations.

6.7 Our most recent audit of the CDHA was in conjunction with a 2001 government wide audit of Financial Planning and Budgeting. The results of that audit were reported in the 2001 Report of the Auditor General. We have followed up on our recommendations from that audit in this Report.

6.8 CDHA receives revenues for services which are not insured under Nova Scotia Medical Services Insurance (MSI) and also from uninsured patients as well as third party payors. The accounting for revenues from patients who are not insured by MSI varies depending on whether the service delivered is on an inpatient or outpatient basis and whether the person is a resident of another Canadian province. Inpatient hospital services provided to residents of other Canadian provinces are recorded as recoveries by the DOH. For fiscal 2003-04 this amounted to $30.8 million for all of Nova Scotia. All outpatient hospital services provided to non-Nova Scotians along with inpatient revenues from residents of other countries are recorded as revenue by the DHAs and IWK Health Centre. Total revenues for the DHAs and IWK, excluding Provincial funding, amounted to $132.8 million for fiscal 2003-04 (see Exhibit 8.5, Chapter 8)

6.9 During the year, we also completed and reported on an audit of Revenue and Recoveries at the Department of Health, see Chapter 8 of this Report. There is a strong link between that audit and our audit of CDHA. Chapter 8 dealt with how the DOH bills other provinces, while our audit of CDHA gave us a more detailed understanding of CDHA's systems for billing and tracking revenues and how some of that information is conveyed to DOH for use in its billing processes.

RESULTS IN BRIEF

6.10 The following are our principal observations from this audit.

- Our audit testing revealed weaknesses in both the billing and credit management processes at the CDHA. Testing revealed weaknesses in certain billing processes including a need for interim billings.
- A large bill (approximately $642,000) had accumulated for a resident of another country and there was no documented understanding of how it would be paid. There is a need for the Department of Health and DHAs to reconsider existing policies for the provision of services to non-Canadians. Policies should require detailed reviews of individual cases by both the DHA and the Department of Health for appropriate action when charges or length of stay have reached specified targets.
- Capital requirements are increasing annually and we continue to urge the development of a collaborative plan from the Department of Health and CDHA to develop an appropriate funding strategy for the longer-term capital requirements. The CDHA's 2004-05 budget submission shows deferred capital requests of $87 million.
- The financial statements of CDHA do not disclose its relationship with Partners for Care which recorded $6.8 million from revenue-generating activities including parking lot fees in the 2003-04 fiscal year. The excess of revenue over expenses is transferred to the CDHA but financial statement disclosure of the relationship between Partners for Care and CDHA needs to be improved.

Similarly, there is a need to enhance the disclosure relating to funds transferred from the Foundations.

- The majority of the recommendations from our 2001 audit have been addressed, however we noted that there are still a few outstanding.

AUDIT SCOPE

6.11 The objectives of this assignment were to:

- review and assess the accountability relationship between the CDHA and the seven Foundations and Partners for Care, compliance with legislation and policies, and financial statement disclosure;

- review the audited financial statements, management letters and related working paper files for the CDHA and Partners for Care to determine if there are any findings that should be reported to the House of Assembly;

- determine the adequacy of CDHA's systems for capital planning and prioritization of capital requests;

- follow up on findings from the 2001 audit of Financial Planning and Budgeting at CDHA;

- review CDHA leases and assess related accounting policies;

- determine whether there are any recommendations in the CDHA's most recent accreditation survey that should be reported to the House of Assembly; and

- determine CDHA's policies and adequacy of controls over major revenue sources and collection of accounts receivable.

6.12 We reviewed our audit plan with management of CDHA in late spring of 2004. Our audit criteria were obtained from recognized sources including the Auditor General of Canada's Guide: *Auditing the Planning Function and Processes*, the Canadian Institute of Chartered Accountants' *Handbook* and *Professional Engagement Manual*, the Criteria of Control Board's *Guidance on Control*, and the Canadian Council on Health Services Accreditation's *Standards for Comprehensive Health Services*.

6.13 Detailed audit testing was conducted from July to October 2004. Our audit consisted of examination of policies and procedures, review of reports and other documents deemed to be relevant, interviews with management and staff, and detailed audit testing for the revenue and receivables component.

PRINCIPAL FINDINGS

Revenues and Receivables

6.14 Background and overall conclusion - The billing process is administered by the Revenue and Collections Department at the CDHA.

6.15 The CDHA records revenues from sources including:

- non-Canadian residents;
- uninsured (not medically necessary) services;
- services provided to individuals who are not insured through MSI (groups such as RCMP, Veterans, Armed Forces);
- preferred accommodation (semi-private/private rooms);
- long-term care per-diem billings;
- Federal Government and Workers' Compensation Board of Nova Scotia for patients insured by such programs; and
- laboratory (e.g., water testing) and other support services.

6.16 The scope of our audit included all of these items with the exception of recoveries from services sold to other DHAs (e.g., lab services).

6.17 For fiscal 2003-04, approximately $43 million dollars had been recorded as revenue for CDHA from these sources. Our audit testing covered the period April 1, 2004 to July 31, 2004 and encompassed approximately $15 million from the same sources for the four-month period. CDHA's receivables at March 31, 2004 aggregated $22 million of which $5.6 million (25.5%) was outstanding for 90 days and over. CDHA indicated that the majority of the overdue accounts are low risk and will be collected from entities such as the Federal Government, reciprocal billings to other provinces and the Workers' Compensation Board. Other overdue accounts include $1.4 million from non-Canadians and $0.9 million for preferred accommodation with 70% of those amounts due from insurance companies.

6.18 We selected a sample of 60 billings to determine the Health Authority's compliance with policies governing revenue generation and to make an assessment on the adequacy of key internal controls. In developing our audit procedures, we focused on the key controls which address whether all invoices are recorded, the invoices are mathematically accurate, reflect correct charges and rates, and are recorded in the correct period. We also considered the controls surrounding accounts receivable; whether all accounts receivable balances are recorded, recorded correctly and collected by credit management staff in accordance with documented collection policies and guidelines. Our audit testing revealed weaknesses in both the billing and credit management processes at the CDHA.

6.19 CDHA uses the STAR patient registration system. In October of 2003, an additional module was added to the present system to enhance its billing and credit management features. Previous to the new module, there were many systems being used for the billing of different revenue and these systems did not work well together.

6.20 Timeliness of billing - The STAR billing system produces an invoice within seven business days of the patient discharge date being entered into the system. The reciprocal billing process is currently four months behind. Previously it had been six months in arrears due to changes in data required for submission of reciprocal billings. These changes necessitated modifications to CDHA systems. Management indicated that CDHA is not always given sufficient notice of changes to enable completion of system modifications before new requirements come into effect and that this is frequently a cause of delays in issuing billings.

6.21 Need for interim billings - The system automatically records the revenue earned on a daily basis by patient. Certain patients require a series of treatments, in some cases requiring more than one year to complete. In these cases, the system accrues the revenue amount but does not prepare an invoice until a discharge date has been recorded. Thirty days following recording of the discharge date, an invoice is prepared by the system. Our testing identified three transactions, where the patients are in series treatments, for which no interim invoice had been prepared.

6.22 In addition, we also identified one case where the patient was not a series patient, but a long-term patient, and because there was no discharge date, the patient had not been invoiced for 18 months. Management indicated that CDHA has recently started a new process for invoicing patients in series or long-term treatments.

Recommendation 6.1

We recommend that CDHA establish policies and related system processes regarding timing of interim billings in cases where there has been no discharge date for extended time periods. We also recommend terms and conditions be arranged and documented with the parties in these cases.

6.23 Prepayments - In certain circumstances patients are required to make deposits prior to the CDHA providing uninsured services. We found, in one sample, the system had no way of handling these situations and that a customer complaint eventually resulted in the deposit being properly credited to his account. This was determined to be a transitional problem when CDHA changed billing systems and it has since been rectified.

6.24 Billing rate tables - The electronic system uses billing rate tables to produce invoices, for all billings except miscellaneous. Only two officers of the Revenue and Collections Department have authority to change the rate tables. Our examination of rates used in our sample revealed that the actual master rate schedule is not formally dated and approved. In addition, when rate schedules are updated, there is no formal requirement for sign off by the responsible officials.

Recommendation 6.2

We recommend that CDHA institute a requirement for formal sign off that billing rate updates have been entered correctly. Documentation supporting the changes should be retained.

6.25 Parking revenue - Partners for Care is responsible for parking revenues at the QEII (2003-04 - $3.9 million). We noted controls over parking revenue were not satisfactory. The Victoria General locations have mechanized parking ticket issuing devices, but the booths and devices do not operate 24 hours a day. When not operating, the gate is left open. As a result, issued tickets are not returned and, therefore, cash cannot be properly reconciled to tickets issued. The mechanized devices provide no totals of cash to be accounted for and parking lot staff use cash boxes rather than cash registers. Our testing revealed weaknesses in verification and in complete reconciliation of tickets issued with cash deposited at those locations.

Recommendation 6.3

We recommend complete reconciliation of parking tickets issued with cash deposited and appropriate documentation of the process.

6.26 Credit management - Our examination of the CDHA's revenue collections process revealed that documented collection policies and procedures are not being implemented by credit management staff. The credit management policies are noted as draft and have not been formally accepted by management. The policy is not current with the new system. The methodology for targeting accounts for collection activity is not defined. While overdue account selection is usually based upon the dollar amount involved, the time period that an account has been outstanding or a specific request from management, we found that the actual selection of accounts for follow up is subjective. Documentation of collection efforts by collections staff has not been compliant with the draft policy.

Services Provided to Non-Canadians

6.27 The Department of Health allows District Health Authorities to set their own billing rates for residents of other countries. At CDHA, non-Canadians are charged $3,200 per inpatient day while uninsured Canadians are charged $1,173. The charges for non-Canadians sometimes become very significant and the collectibility of these amounts may be uncertain.

6.28 During our testing, we encountered one very significant non-resident account which raises concerns about the policies of the Department of Health and CDHA relating to non-Canadians. The specific situation is summarized as follows.

- The individual, who was not a Canadian citizen or landed immigrant, was admitted to CDHA in February 2003 while visiting family in Nova Scotia. The patient was not covered by Nova Scotia Medical Services Insurance.
- Between 2001 and January 2003 the individual accessed various medical services at CDHA which were paid for by the patient. During the period from February 2003 to fall 2004, there were three hospital stays, one of which exceeded 180 days.
- When we examined the account on CDHA's internal accounts receivable system, the amount owing was approximately $191,000. It appeared that the patient had not always been charged the non-resident rate and that not all inpatient days had been charged. For one stay, the patient should have been billed for 94 days and was actually charged for 62. In total the patient's account on the accounts receivable system appeared to have been undercharged by $451,000 and should have had an outstanding balance of $642,000 at the time of our audit. Management explained that CDHA had initially used the correct non-resident rate but had later adjusted the account to reflect the collection risk and to avoid overstating CDHA's revenue as explained in paragraph 6.29 below.
- The patient had private health insurance. An amount of $59,600 was billed to the insurance company in March 2003 and a payment of $53,048 was received in April 2004. CDHA management was unclear on whether the lifetime maximum of the policy had been paid or whether additional amounts were eligible to be claimed. An additional claim of $296,075 was filed with the insurance company on September 19, 2003 and remains unpaid. Management indicated that the $296,075 claim had been submitted to the insurance company twice. The insurance company had not been billed for additional outstanding amounts of $306,925. During our audit in the fall of 2004, CDHA contacted the insurance company again and resubmitted the documentation that had been previously submitted along with additional charges of $306,925. The insurance company has now been billed at the correct rate. The insurance company was unwilling to discuss the case with CDHA management over the phone.
- The patient signed a "Statement of Financial Responsibility" upon admission. There were no payments from the patient or the family after 2002.
- The patient passed away in the fall of 2004.

6.29 Several credit management weaknesses were identified with this one account. Responsibility for payment was not clearly established at the time of admission or upon subsequent re-admission. Interim billings were not issued on a timely basis and followed up. Management realized that there was significant risk associated with this account as the account balance accumulated. In order to ensure that revenue was not overstated on the CDHA financial statements, the patient's account on the hospital's internal accounts receivable system was adjusted to the resident rate. For another stay, the full number of days was not charged. It would have been more appropriate for management to charge the full amount and then follow appropriate procedures to have the uncollectible amounts approved and expensed as bad debts.

6.30 The Department of Health has a policy which gives direction to DHAs on international patients. DHAs are responsible for financial recovery of the account. There is need for the Department of Health and DHAs to reconsider existing policies for the provision of services to residents of other countries. Policies should require detailed reviews of individual cases for appropriate action when charges or length of stay have reached specified targets.

Recommendation 6.4

We recommend that the Department of Health and CDHA reconsider existing policies regarding the provision of services to non-Canadians and modify as required. Policies should address necessary guarantees and credit authorizations, billing frequency and rates, and formal reviews of individual cases by the DHA and Department of Health when charges reach a specified amount or length of stay exceeds a certain number of days.

Recommendation 6.5

We recommend that CDHA update and strengthen its credit management policies and procedures including credit authorization.

Capital Assets

6.31 We reviewed the CDHA's prioritization and planning process for capital assets and concluded that it is adequate. However, in the 2001 Report of the Auditor General we had recommended CDHA and DOH develop a common perspective on longer-term capital requirements and develop appropriate funding. This recommendation has not been addressed. See paragraph 6.49 of this chapter which deals with follow up on the 2001 audit findings.

6.32 CDHA staff and management follow formal procedures and criteria for capital equipment prioritization. A committee consisting of medical staff, a vice-president, clinical directors, bio medical engineers and material management staff assign priorities based upon established criteria. Information technology hardware and software is prioritized by the Information Technology Director based upon strategic directions, operational commitments, systems upgrades and continuation of mission critical systems. The Executive Management Team prioritizes the capital renovations based on clinical priorities and needs identified in previous reviews. Emergency situations arise, in areas of equipment safety or break down, which impact on the priorities list.

6.33 Budget presentations to the EMT include prioritized lists and estimated costs. The procedures also require a challenge and review process to be completed at the Executive Management Team level. Once approved, funds are released at three intervals during the year. Periodic reporting against the approved budget is provided to senior management and the Board. Emergency situations are dealt with as needed.

6.34 In 2001, CDHA created a discussion paper that outlined the investments required in capital from fiscal 2002 to 2006. The paper also indicated possible funding alternatives. A five-year capital projects plan for information technology assets was developed in 2002. This was then used in the creation of the Information Management Strategic Plan approved by the Board of Directors in January 2003.

6.35 A summary of the capital needs is included in the annual Business Plan submitted to the Department of Health. It should be noted that the business plan for 2004-05 has not yet been approved by the Department of Health. The plan shows the deferred capital requests total. The 2004-05 budget submission shown in Exhibit 6.2 reflects deferred capital needs of $87.2 million for capital funds compared to the 2001-02 budget submission which showed a deferred capital request of $44.3 million. The deferred capital requirements have increased significantly over prior years due to lack of funding. In addition, equipment book value is less than 30% of cost which indicates that a significant portion is near the end of its useful life. As of April 2000, the Department of Health allocated capital equipment funding to the portable funding base. This gives CDHA the responsibility to determine the allocation between operating costs and capital requirements as necessary. Management noted that CDHA was not provided any capital funding by the Department of Health other than a portion of the $15 million Federal Medical Equipment fund and some specific funding related to emergency purchases.

Related Parties

6.36 Within CDHA, there are seven foundations and one auxiliary. These related parties provide funding to specific sites through fundraising activities. The foundations are:

- QEII Health Sciences Centre Foundation
- Dartmouth General Hospital Charitable Foundation
- Cobequid Community Health Centre Foundation
- Hants Community Hospital Foundation
- Musquodoboit Valley Health Foundation
- Mental Health Foundation of Nova Scotia
- Twin Oaks/ Birches Health Care Charitable Foundation

6.37 Each of the foundations is governed by a Board of Directors separate from each other and CDHA.

6.38 The one auxiliary for CDHA is Partners for Care. Partners for Care is a volunteer based, nonprofit, charitable organization dedicated to generating income through business initiatives such as parking lot revenues from the QEII Hospital sites and retail space leasing. It has its own Board of Directors. The income is transferred to CDHA to benefit patients. See Exhibit 6.4 for a summary of PFC's financial statements for fiscal 2002-03 and 2003-04.

6.39 Our audit work focused on Partners for Care (PFC) and the two largest Foundations: the QEII Foundation and the Dartmouth General Hospital Foundation. We reviewed the legal documentation on each of these entities, the applicable financial statements and various policies and procedures. We concluded that these organizations fit the definition of related parties according to generally accepted accounting principles (GAAP) because CDHA has an economic interest in them. Accordingly, the CDHA's financial statements should include a note which describes the relationship between the CDHA and its related parties and any transactions between the parties during the year to demonstrate transparency and accountability for funds.

6.40 Although we acknowledge that funds transferred from related entities to the CDHA are included in CDHA's financial statements and may not be material in relation to CDHA as a whole, the accounting for funds from these organizations is not always clear. For example, for 2003-04, CDHA reported as operating income $2 million of the $3.25 million earned and transferred by PFC. This figure was not specifically identified as being transferred from PFC. The remaining $1.25 million was reported as part of the capital fund contributions from Foundations. Again, it would not be apparent to a reader that the funds came from PFC.

6.41 We note that senior management of the Department of Health was not involved when Partners for Care was first created. Disclosure in a note to the financial statements would help to ensure that stakeholders and the general public are aware of any related organizations.

Recommendation 6.6

We recommend that CDHA disclose its related party relationship with the Foundations and Partners for Care, including transactions between the related parties during the year, in the notes to CDHA's financial statements.

6.42 Achieving common objectives - According to their documented objectives, each foundation was created to provide optimal health care for people within the CDHA; however, currently, they are all operating and planning independently of each other and CDHA. Each of the foundations makes its own decisions related to items or funding provided to CDHA. Recently the foundations have created a committee to determine ways to cooperatively maximize the benefits for each of their sites as well as, collectively, for CDHA.

Financial Statement Audit

6.43 CDHA and PFC financial statements are audited by an independent public accounting firm. In addition to expressing their opinion on the reasonableness of the financial statements, the external auditors also complete professional reporting requirements to those having oversight responsibilities - the Audit and Finance Committee. We reviewed the financial statements and other information including management letters and the auditor's working papers for the year ended March 31, 2004. We found no additional matters to report to the House of Assembly.

Leases

6.44 Under the Provincial Finance Act, DHAs must seek Governor in Council approval for capital leases. As part of this audit, we reviewed the largest operating lease CDHA had recorded on its financial statements to ensure it qualified as an operating lease according to the CICA Handbook. This lease is for data storage equipment and requires an average annual payment of $2.5 million and has an outstanding commitment of $12.8 million. CDHA requested the external auditor to provide an opinion on the classification of the lease based upon criteria in the CICA Handbook. The external audit opinion concluded that the lease is an operating lease. We concur with the opinion and conclude that the lease is appropriately recorded on the financial statements of CDHA. Since it is an operating lease, Governor in Council approval is not required.

Accreditation

6.45 The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on CDHA every three years. In the accreditation process, a self-assessment is completed by the health care organization by comparing its methods and services against a set of national standard criteria. At CDHA, this process is coordinated by the Quality Committee which includes representation from the CDHA's Board of Directors. These criteria are compiled by the CCHSA, which then independently performs the same assessment on the organization. The result is a report with an overall rating for the organization and a set of recommendations issued for those areas that need improvements.

6.46 The Canadian Council on Health Services Accreditation is currently accrediting DHAs as a whole rather than individual hospitals. An accreditation report was done for the Central Regional Health Board (CRHB) in 2000. Separate accreditation reports were issued in 2001 for the Queen Elizabeth II Health Sciences Centre and the Nova Scotia Hospital.

6.47 The previous accreditation reviews resulted in an evaluation of *accreditation with report*, which was one level less than the best possible evaluation. There are 96 accreditation recommendations for CDHA to implement. CDHA is submitting status reports on implementation of the recommendations internally as well as to CCHSA as required. The first review of the CDHA is planned to occur in fall 2004.

Follow up from 2001 Audit

6.48 During our audit, we followed up on implementation of recommendations from our 2001 Report related to financial planning and budgeting.

6.49 Based on discussions with management and a review of relevant documentation, we concluded that the majority of recommendations have been adequately addressed. The two major recommendations not fully dealt with involve deferred capital requirements and, due to the significant dollars involved, we continue to make these recommendations:

- CDHA and the Department of Health should collaborate and develop a common perspective on the longer-term capital requirements, and

- CDHA and the Department of Health should develop an appropriate funding strategy for the longer-term capital requirements.

6.50 Exhibit 6.1 shows the status of implementation of each of the specific recommendations.

CONCLUDING REMARKS

6.51 The Capital District Health Authority received approximately $500 million from the Province in 2003-04 which represented almost 90% of its total revenue. Accordingly, accountability for the use of public funds, including transparency and implementation of appropriate internal controls, should be an important aspect of CDHA's operations.

6.52 CDHA has acted upon many of the recommendations from our previous audit of financial planning and budgeting. One area that has not been addressed is the need for the Department of Health and CDHA to develop a funding strategy for the CDHA's significant equipment and facility requirements.

6.53 The scope of the current audit was primarily limited to one aspect of CDHA's operations - accounting for non-Provincial revenues which totaled approximately $60 million for 2003-04. We noted weaknesses in the systems for billing and collecting from uninsured patients.

6.54 Nova Scotia's DHAs do not have *case costing* systems and, therefore, are unable to accumulate costs related to providing services to a specific patient. Uninsured patients are billed on the basis of a *per diem* rate based on residency and accommodation choice regardless of the actual cost incurred in the provision of services to that patient. Other Canadian jurisdictions experience the same problems with lack of *case costing*.

6.55 Some of the CDHA's revenues originate from donors to its Foundations or from revenue sources, such as parking, that have been become the responsibility of Partners for Care (formerly hospital auxiliaries). We have recommended clear disclosure of transactions with the seven Foundations and Partners for Care to enhance accountability for revenues from those sources.

Status of Recommendations from Auditor General's 2001 Financial Planning Audit

Exhibit 6.1

Recommendations	Implementation Status
Business Planning and Budgeting Processes - For the business planning and budgeting process, performance targets should be established.	Completed The Quality Committee issued the Operational Measures Indicators Report in September 2002. This document was used in the preparation of the strategic plans and included in the development of the Business Plan for 2004-05. The report includes 53 indicators; currently there are 20 for which targets have not been assigned.
Appropriate Governance and Management Structure - Polices and procedures should require documentation and communication of assumptions, and a discussion of related risks and sensitivities.	Partially Implemented Procedures require that as part of the business planning process, budget assumptions information be included in the Business Plan. DOH does not require related risks and sensitivity analysis to be documented in the business plan.
Sound Financial Reporting Standards	
The Department of Health should communicate appropriate assumptions to the DHAs. The DHAs should communicate assumptions underlying budget submissions to the Department.	Completed Correspondence from the Department to the DHAs at the start of the business planning process includes assumptions to be utilized by the DHAs. DHAs' submitted business plans include a section on Business Planning Assumptions used in developing the budget.
Senior management should develop and communicate overall budget assumptions to the Board, prior to the commencement of the budget preparation process.	Completed Executive Management Team document the assumptions used in preparing the budget presentation for the Finance and Audit Committee. The minutes and the presentation are included in the package sent to the Board.
Directors and managers should be required to document operational plans to achieve budget reductions communicated by senior management.	Completed Senior management has documented plans in collaboration with the responsible management to achieve budget reductions. Updates detailing how each area is achieving these reductions are prepared.
When feasible, objective, external support should be provided for assumptions.	Partially Implemented Phone surveys were completed with the major drug suppliers to determine the increase in the cost of drugs. Documentation of the surveys was not kept. Fuel cost assumptions were determined by reviewing the contract in place until November 2004.

Recommendations	Implementation Status
There should be a formal sign off on the budget recommendations at each level in the process.	Completed At each level of management, various forms of evidence of approval were found. Evidence of recommendation from Executive Management Team, to Finance and Audit Committee and to the Board was clearly indicated. The budget was presented to the Board and the F&A Committee by EMT on October 10, 2003. There was no formal Board approval at that time. As with other DHAs, DOH funding discussions continued as late as December 31, 2003 and, according to legislation, the Board of Directors cannot approve a deficit budget.
CDHA should consider the feasibility of establishing an internal audit function which could play a role in quality control during the budget process.	Not implemented CDHA believes the quality control function is being met. CDHA directs as much of its funding as possible to patient care and creating an internal audit function is not an initiative it will pursue at this time.
Sound Monitoring Process	
Monitoring reports in the required format should be provided to the Department of Health on a timely basis.	Completed As mentioned in the 2001 audit report, this monitoring had started in September 2001 and was in the same format as the budget required.
Forecasting policies and procedures should be established.	Not Completed Development of policies is being reviewed but not yet in place.
Operational plans and strategies to achieve budgetary targets should be formalized.	Completed As mentioned above, senior management has documented plans in collaboration with the management responsible to achieve budget reductions. Updates detailing progress towards achieving these reductions are prepared.
Capital Budgeting Process	
CDHA and the Department of Health should collaborate and develop a common perspective on the longer-term capital requirements.	Not Completed The Department of Health works closely with all DHAs in their requests for capital. DHAs/IWK capital project requests and those included in the annual business plan submissions are reviewed by the Department as received.
CDHA and the Department of Health should develop an appropriate funding strategy for the longer-term capital requirements.	Not Completed The Department prepares a five-year plan to determine its funding requirements. Feedback is provided back to the DHA to advise of its status and priority.

Capital Equipment and Renovations Budget Submissions - 2001-02 and 2004-05

Exhibit 6.2

	2001-02	2004-05
	($ thousands)	
Request		
Capital Equipment	$ 27,700	$ 56,000
Information Technology	16,600	10,000
Capital Renovations	9,250	40,600
Total Request	**$ 53,550**	**$ 106,600**
Funding – Expected		
Department of Health	$ 3,900	$ 16,400
Foundations	2,725	1,000
Partners for Care	2,000	2,000
Other	600	-
Total Projected Funding	$ 9,225	$ 19,400
Deferred Capital Requests	**$ 44,325**	**$ 87,200**

Exhibit 6.3

CDHA Shareable Revenue - 2003-04

Description		**Amount**
Federal Government		$ 980,232
Workers' Compensation Board		1,301,788
Non-Resident		5,010,349
Non-Canadian Resident		1,106,775
Uninsured Residents & Non-Medically Necessary		5,458,480
Outpatient Revenue		**$ 13,857,624**
Dept. of Veterans Affairs		16,455,150
Federal Government		947,601
Workers' Compensation Board		2,264,998
Non-Resident		7,153
Non-Canadian Resident		2,366,586
Uninsured Residents & Non-Medically Necessary		106,607
Inpatient Revenue		**$ 22,148,095**
Preferred Accommodations		7,089,924
Veterans' Meals & Accommodations		1,357,834
Alternative Long-Term Care		854,502
Other Inpatient Revenue		**$ 9,302,260**
Restaurant Revenue		5,403,608
Interest		2,552,521
Utilities		1,268,172
Parking		2,055,361
Other Revenues		3,559,932
Other Revenue		**$ 14,839,594**
Total		**$ 60,147,573**

Partners for Care - Summary of Financial Statements

Exhibit 6.4

Balance Sheet	2004	2003
Assets	$ 1,254,704	$ 2,033,950
Liabilities	714,919	1,295,571
Surplus	539,785	738,379

Income Statement	2004	2003
Revenues	$ 6,802,708	$ 6,674,538
Cost of Sales	1,868,550	1,884,096
Expenses	1,882,752	1,741,752
Operating Lease Payments to CDHA	2,000,000	-
Priority patient equipment transfers (to CDHA)	1,250,000	3,000,000
(Decrease) Increase in Surplus	$ (198,594)	$ 48,690

CAPITAL HEALTH'S RESPONSE

We have reviewed the detail and recommendations in the Auditor General's Report and make the following comments in sequence of the principal findings format:

Revenue and Receivables

6.20 *Timeliness of Billing*

The four month delay in billing is a result of the Department of Health agreeing to a change in policy with the other provinces that requires the expiry date be included on the billings for "Out of Province Patients". This change was agreed to by the Department of Health without consultation with Capital Health, thus the impact on our system was not considered. Capital Health's in-patient system collects this information for in-patient stays, but many of the out-patient systems required programming changes which created a delay. Subsequently, Department of Health removed the health care expiry requirement for laboratory billings, which has removed many of the delay issues.

We would recommend Department of Health implement a process of consultation for policy decisions that may impact directly on Capital Health systems.

6.21 *Need for Interim Billings*

We have subsequently implemented a process to ensure interim billings to patients receiving services over extended time periods. We will also be developing a policy to cover this process.

6.23 *Prepayments*

Our billing system and ongoing operations do accept and appropriately allocate prepayments from patients/customers.

As noted the sample found related to a transitional period of changing from one billing system to another.

No action required.

6.24 *Billing Rate Tables*

All changes to billing rates are documented and approved by the Capital Health Executive Management Team before implementation.

As a result of the Auditor General's comments, we have developed a process to review all rates with approved rates and have the Manager, Revenue sign and date all future changes and retain necessary documentation.

6.25 *Parking Revenue*

We are currently challenged at the Victoria General site in regards to the aged technology and the fact that there is no business case to operate the booths 24 hours a day. We have contracted CanPark to provide parking services and they are reviewing the option of installing the technology currently in place at the Robie Street Parking Garage.
Interim solutions such as reconciliation as noted, more frequent counts, surprise counts, etc. are being reviewed.

6.26 Credit Management

Given the sensitivity around billing individual patients/clients, we apply our credit management policy and processes carefully. Each issue we encounter is reviewed to ensure reasonableness in terms of the credit policy application, especially before forwarding accounts to one of the two collection agencies Capital Health utilizes for overdue accounts. We make every effort to work with the patient/client to ensure reasonable repayment terms whenever possible.

This policy also applies to a very small component of our Accounts Receivables. Our receivables totaled $22 million at year end of which 98% ($21.6M) applied to amounts owing from the Federal Government, Workers Compensation Board and Insurance companies. 2% ($500K) related to patient billings of which 70% ($350K) was billed to insurance companies.

We have spent the past year installing a new billing module which ensures more efficient flow of billing data from our various systems and more readily available detail.

We are now in position to redraft the Credit Management policy and will be submitting it to Executive Management Team in January 2005 for approval.

6.28,29,30 Non-Canadian Patient

The non-Canadian patient referred to was a very unique and complex situation of which we were totally aware. The patient was a United States citizen who was very ill and subsequently died from this illness.

Up until the last in-patient stay, we were satisfied that the charges would be covered by the patient's insurance company as expenses previously submitted had been paid. The patient made several visits to the QEII from 2001 to 2004 when the patient passed away.

Visits up to 2003 were out-patient and emergency room visits, which were charged directly to the patient and paid.

Due to medical diagnosis, the patient was admitted as an in-patient from June 22 to December 22, 2003, a total of 183 days. An interim invoice was submitted to the patient's insurance company with several attempts made to contact and collect on the charge. As the invoice to the insurance company had not been paid it was Management's concern that the patient had exhausted all financial means.

At this point, as the patient was still an in-patient, it was determined that allowing the rate to be charged at the out-of-country rate of $3,200/day would lead to an overstatement of revenue. A management decision was made to adjust the account to the inter-provincial rate of $1,173/day, while still billing the insurance company the full out-of-country rate. The patient continued to receive services until a final in-patient stay from September until the date of death. We felt this accounting treatment to be consistent with GAAP and section 3400 of the CICA Handbook that deals with recording revenue when there is uncertainty of ultimate collection.

Various management and clinical levels were consulted in this case including social workers and the Department of Health in attempting to find an alternative placement for this person in a long-term care facility, without success.

Our challenge in this particular case, was, having an out-of-country patient who could pay for services to a certain level at first, became an in-patient with a serious illness, no option for payment and no option for discharge or alternate placement. Once a patient is admitted into our system there is a legal obligation upon the facility and the physician to provide services regardless of the patient's ability to pay until the patient meets the criteria for discharge. Under both the Canadian and US laws a hospital cannot refuse emergency services to a patient when required even if they do not have the ability to pay for these services.

As noted, we continue to invoice and deal with the insurance company re further payments. We have also recognized the balance of this account in the "Allowance for Doubtful Accounts" so that there are no future negative impacts on revenue. In future we will, as suggested by the Auditor General, escalate out-of-country billing issues to the Department of Health for advice and action.

Capital Assets

We are pleased to note that the Auditor General understands the significance of the capital under funding we are experiencing at Capital Health.

We have constant unmet needs in medical equipment, infrastructure and information technology.

We fully endorse the Auditor General's recommendation that Capital Health and the Department of Health collaborate and develop a common perspective on the long term capital requirements and further that we develop a long-term funding strategy.

Related Parties

We agree with the Auditor General's comments on "Related Parties" and will be providing the note disclosure in the annual audited financial statements for Capital Health.

Financial Statement Audit

Capital Health is audited by an external audit firm and has a clean audit opinion.

No action required.

Leases

As noted the Auditor General confirms that Capital Health has treated leases in an appropriate manner.

No action required.

Accreditation

Noted for information with no action required.

Follow-up From 2001 Audit

We agree that the two major recommendations not fully dealt with from the 2001 audit are with respect to Capital Health and Department of Health collaborating and developing a common perspective and funding strategy for long-term capital requirements.

In conclusion, we thank the Auditor General for their support in their extensive process (1000 hours in audit time) and also thank our staff for the time they committed to this process, over and above all their regular duties.

We are pleased with the results and recommendations and understand that on the collection side with individual clients, we will constantly be challenged with our mission of providing healthcare for the sick and collecting money owed.

7 PHARMACARE AND OTHER DRUG PROGRAMS

BACKGROUND

7.1 The Department of Health (DOH) manages Nova Scotia's publicly funded prescription drug programs. The net cost of these programs to the DOH has increased from $89 million in 2000-01 to $108 million in 2002-03, a 21% increase over this three-year period. Atlantic Blue Cross Care (ABCC) is under contract to administer the programs for DOH. The Department of Community Services (DCS) also offers a prescription drug program for certain of its clients. The cost of this program has increased from $31 million to $36 million, an 18% increase, over this period. This program is also administered by ABCC. Other jurisdictions, both within Canada and internationally, are also reporting significant annual increases in prescription drug expenditures for their publicly funded drug plans.

7.2 A study published in 2001by the Patented Medicine Prices Review Board for the Federal/ Provincial/Territorial Working Group on Drug Prices (*Pharmaceutical Trends 1995/96 - 1999/00*) noted:

> *"Over the past decade, spending on drugs has grown at twice the rate of spending on health care. Drugs now account for the second largest share of health expenditures, after hospitals, with total spending estimated to have reached $14.7 billion in 2000.*
>
> *Despite significant reform of many of the publicly funded drug plans in recent years, public spending has been increasing by more than 10% per year; in 2000/01, many provincial drugs plans experienced increases of 20% or more. The rise in spending on drugs reflects a number of factors, including the growing importance of prescription drugs in treating and preventing illness in Canada and in other countries. Governments can expect to face continuing pressure to ensure that those Canadians who are most in need will be able to maintain affordable access to the best drugs."*

7.3 During 2003, legislative auditors in nine jurisdictions in Canada decided to undertake a joint or collaborative audit of Pharmacare/drug programs in their jurisdictions. The audit took the form of a concurrent audit conducted by several jurisdictions using a common audit plan. Because all Canadian governments face significant challenges in managing drug costs with due regard for economy and efficiency, this program was determined to be an ideal candidate for a joint or collaborative audit. Although there have been previous joint audits undertaken by Canadian legislative auditors, this audit was unique in that the auditors of almost all jurisdictions chose to participate. The audit was coordinated by a sub-committee of the Canadian Council of Legislative Auditors (Health Study Group). The legislative auditors of the other jurisdictions will issue their reports from this audit to their respective Legislative Assemblies/Parliament between the fall of 2004 and 2005.

7.4 The scope of our audit included the Nova Scotia Seniors' Pharmacare program, disease specific programs, exception drug funding administered by the Department of Health and the Pharmacare program offered by the Department of Community Services. See exhibit 7.1 for key information related to the mandates, eligibility and terms and conditions of these programs. Exhibits 7.7 and 7.8 show the relationships between the various organizations responsible for the administration of these programs.

7.5 Our audit did not include drugs which are procured and used in acute care and long-term care facilities. However, we compared the price of drugs bulk purchased for use in acute care facilities in Nova Scotia to those paid by the Provincial Pharmacare programs. It is important to note that the Nova Scotia Pharmacare programs are more restricted in scope than those in other jurisdictions and are targeted towards seniors and income assistance recipients with no private insurance.

7.6 Exhibits 7.2 to 7.5 provide actual expenditure information for the various drug programs and various program statistics.

7.7 DOH has entered into an agreement with Atlantic Blue Cross Care (ABCC) to process claims for most insured health services including Pharmacare and physician payments. ABCC processes all prescription drug claims on behalf of the Department other than exception drug funding claims. ABCC billed the Department $8.4 million in 2002-03 to provide these services. The amount relating specifically to drug programs is not available.

7.8 The Department of Health works in conjunction with other Provincial and Federal government departments and agencies, inter-jurisdictional committees and other organizations in reviewing the various aspects of the prescription drug programs. Exhibit 7.6 provides a listing of these organizations and their roles and responsibilities.

RESULTS IN BRIEF

7.9 The following are the principal observations from this audit.

- The contract with Atlantic Blue Cross Care for administration of the drug programs is not current, and is inadequate. We recommend that DOH finalize a performance-based third party service provider contract that includes clearly defined roles, responsibilities, and performance expectations.
- Although there is now a national Common Drug Review process, Nova Scotia is still responsible for deciding which drugs will be added to the Province's formulary and for reviewing old drugs with new indications, line extensions

and class reviews. We noted that the processes for reviewing and assessing drug manufacturers' submissions and approving additions to the formulary are thorough and consistent. The advice of experts is sought and followed. Effectiveness of drugs and costs are considered.

- The controls and processes in place at ABCC over the payment and monitoring of electronic claims are appropriate. Controls could be improved in the payment and monitoring of manual claims at ABCC.

- DOH needs to conduct a comprehensive evaluation of options for reducing drug costs for the pharmacare programs in Nova Scotia. As an example the Nova Scotia Provincial Drug Distribution Program, which acquires drugs used by District Health Authorities in acute care institutions, has been able to procure drugs at prices approximately 14.8% lower, by purchasing through a national buying group, than prices paid to pharmacies for the same drugs through the Provincial Pharmacare programs. Although we acknowledge that pharmaceutical companies ultimately control the price of drugs and may be unwilling to reduce prices for drugs which are not used in a hospital setting, the potential savings to the program of even modest drug price reductions could be significant and warrants further study. We also acknowledge that bulk purchasing is complex because of the need to consider such factors as warehousing, distribution and uncertainties about how the market would respond to such initiatives.

- We recommended that current DOH initiatives to monitor drug utilization and physician prescribing practices should be continued and enhanced.

- We recommended that DOH should explore options to increase physician participation in *academic detailing* which is a program administered by Dalhousie Continuing Medical Education to provide educational advice to physicians on drug-related topics through visits to physicians' offices.

- The Department of Health needs to improve its information systems for the Pharmacare programs. The current information technology is outdated and unable to produce all information required for appropriate monitoring.

AUDIT SCOPE

7.10 The objectives of this assignment were to assess the adequacy of:

- procedures to manage the performance of the Pharmacare/drug programs;

- procedures to ensure resources are managed with due regard for cost-effectiveness;

- monitoring of the quantity and relevance of drug use to encourage appropriate and economical practices;

- procedures to ensure the eligibility of insured persons and appropriate collection of premiums and other fees;

- procedures to ensure compliance with legislation and assess whether the policies and procedures for approving, processing and paying claims are adequate and are being followed; and

- reporting on the drug program's performance and whether reports to the House of Assembly are presented in the prescribed timeframe.

7.11 Audit objectives and criteria were developed jointly by all participating jurisdictions to assist in the planning and performance of the audit (Exhibit 7.11). The criteria were discussed with and agreed to by senior management of both DOH and DCS.

7.12 Our audit approach included interviews with management of DOH, DCS and ABCC, a review of both internal and external audit files, detailed testing and analysis of claims, as well as the examination of studies and other documents deemed relevant. We also compared the prices paid by other jurisdictions for a sample of drugs to those paid by Nova Scotia. Our detailed testing focused on the year ended March 31, 2003 because that was the most recent complete fiscal year for which data was available at the start of the audit.

PRINCIPAL FINDINGS

Program Governance

7.13 Overall conclusion - We found that many of the criteria used to assess program governance (see exhibit 7.11) were not met. Our detailed comments are in paragraphs 7.15 to 7.33. We reviewed the legislation under which the drug programs operate and concluded there is a need to update and consolidate the authority for the drug programs being administered.

7.14 The Departments have a third party service contract with ABCC to provide various administrative services for the programs. We noted the contract is not current and lacks appropriate accountability requirements such as a responsibility framework and performance standards. There are no documented objectives and performance measures for the program.

7.15 Legislation - Various Acts, Regulations and Orders in Council provide the authority to administer the drug programs. We observed there is a need to amend sections of the legislation which are no longer relevant. For example, the appeals process for service providers specified in the Health Services and Insurance Act is not used because the Health Services and Insurance Commission which was intended to hear appeals is no longer in existence. We also noted the need to consolidate the authority for the various drug programs being administered.

7.16 DOH has developed policies for administration of the drug programs. Department staff indicated they will be updating certain policies to reflect current practices.

Recommendation 7.1

We recommend the Department and government update and consolidate legislation governing the various prescription drug programs.

7.17 Program objectives and measurement of performance - Government departments are required to prepare annual business plans and accountability reports using guidelines issued by Treasury and Policy Board. These guidelines focus on the reporting requirements for departments' core business areas. We reviewed the 2003-04 business plans and 2002-03 accountability reports of the Departments and concluded they contained little or no information on operation of the drug programs. Although the Pharmacare Program is not considered to be a core business area by either DOH or DCS, expenditures on an annual basis are significant. The Departments have not developed well defined and measurable objectives and priorities for the programs to be included in their annual business plans and accountability reports.

7.18 Government departments are required to develop performance indicators to measure success in achieving their objectives and priorities. No performance indicators have been developed for the drug programs. We were informed there are very few broad based and validated indicators of success for drug programs. The Task Group on Pharmaceutical Indicators, described in paragraph 7.64, is developing a number of national product based and population based drug utilization indicators.

Recommendation 7.2

We recommend that the Departments of Health and Community Services develop a process to establish objectives, measure and evaluate the performance of the Pharmacare Programs. The objectives and results should be included in Departmental Business Plans and Accountability Reports.

7.19 Accountability - Annual budgets are prepared for the drug programs as part of the Departments' budget processes. We found management receives or prepares relevant and sufficient monthly financial and statistical reports to assist in the monitoring of program costs. We did note improvements were required in information being provided to DOH from the QEII Health Sciences Centre with respect to exception drug funding (paragraph 7.88).

7.20 The financial statements of the Insured Prescription Drug Plan Trust Fund (Seniors' Pharmacare Program) are audited by a public accounting firm. We reviewed the auditor's working papers for the year ended March 31, 2003 and found there were no matters which warranted reporting to the Minister of Health or House of Assembly.

7.21 Statistical reporting - DOH publishes an Annual Statistical Report and Supplement. The Annual Report only discusses two statistics for the Seniors' Pharmacare program - total program cost and cost per beneficiary. The Supplement contains more detailed statistics on the Seniors' Pharmacare Program as well as on the other disease specific drug programs. No information or statistics are provided on exception drug funding.

7.22 Contract with Atlantic Blue Cross Care - DOH has contracted the administration of insured health services programs to ABCC. These services include all drug programs, with the exclusion of exception drug funding. The last complete contract was signed in 1992 with Maritime Medical Care Inc. (MMC) and has been extended several times, with the most recent extension expiring March 31, 2005. Legislation formalizing the merger of MMC with ABCC was proclaimed on January 1, 2003.

7.23 DOH receives a yearly administrative budget proposal from ABCC. The budget is reviewed and analyzed by Department staff. ABCC is formally notified of the approved administrative budget. We noted that DOH did not communicate the approved budget for the 2002-03 fiscal year to ABCC until August 2002. The approved budget should be communicated to ABCC prior to the start of the fiscal year.

7.24 The total cost claimed by ABCC for administering the insured health services programs, including the DOH drug programs as well as physician services, in 2002-03 was $8.3 million. The total cost claimed by ABCC for the DCS pharmacare program for the same year was $0.6 million. These amounts represent ABCC's actual costs of providing the service. If the costs of administering all insured health programs exceed the approved administrative budget, DOH would examine the reasons and, if warranted, increase funding. The actual costs of administering the drug program are not currently being reported to the DOH.

7.25 Corporate internal audit staff perform an annual audit of the ABCC claim for the administration of the insured health services programs. The scope of this audit does not include costs claimed by ABCC for the DCS pharmacare program. We believe that the scope of the annual audit should be expanded to cover the pharmacare programs of both departments.

7.26 We reviewed the ABCC contract details and concluded that it does not provide for an appropriate accountability framework between DOH and ABCC. The roles and responsibilities of the various parties are not clearly defined.

7.27 In the spring of 2002, DOH contracted a consultant to look at the existing contract with ABCC and make recommendations for change. The consultant identified gaps between the current agreement with ABCC and best practices in the areas of contracting and business process outsourcing. The consultant developed a decision framework to assess three alternative service provider options:

- public sector (service delivered by the Nova Scotia government);
- status quo (service continued to be delivered by ABCC); and
- tendered (tender to choose a private sector service provider).

7.28 The consultants concluded that the best option to meet the current and future needs of DOH was to have services delivered by ABCC under a new service level and performance-based contract. The former Management Board (now Treasury and Policy Board) instructed DOH to begin negotiations with ABCC on a new agreement.

7.29 In the fall of 2003 the Department hired a different consultant to develop a comprehensive statement of requirements and responsibilities. At the time of writing this chapter, the Department, with the aid of the consultant, has begun negotiating a new contract with ABCC. Under the proposed arrangement ABCC would receive a lump-sum payment to provide specified deliverables at pre-defined performance standards. Although the draft contract only requires the approval of the Minister of Health, Treasury and Policy Board have requested that the contract be submitted to the Board for its review and approval.

7.30 The Province of Nova Scotia's Policy on Government Procurement establishes how the procurement of goods and services by the Government of Nova Scotia should be conducted and needs to be considered for the ABCC contract. The Policy requires goods and services to be acquired in an open, fair and competitive manner which helps to ensure that the best value for money is being obtained; however, the Policy allows for alternative procurement practices such as sole sourcing in appropriate circumstances. Consultation with the Procurement Branch and approval by the requesting Deputy Minister is required in such circumstances.

Recommendation 7.3

We recommend that DOH formalize a performance-based third party service contract for the administration of the Pharmacare Programs and that the contract be appropriately approved in accordance with the Government Procurement Policy.

7.31 Computer equipment and software - DOH owns all the computer hardware and software used to process claims and makes all decisions concerning technology investment. These assets are managed and operated by ABCC. A report prepared by ABCC (Proposed MSI Technology Strategy - A Value Proposition) for the Department of Health noted application software in use is dated and is taking increased effort and cost to maintain. Many software vendors are reducing or have eliminated support and maintenance for these software products. A report prepared for the Department of Health by a consultant reached similar conclusions. A number of significant issues have been identified which must be addressed during contract negotiations with ABCC.

7.32 ABCC noted it has developed a disaster recovery plan to ensure continuity of operations. However, there could be significant problems if a disaster occurred. There is no alternative back-up power source for the data centre. ABCC has also developed business continuity plans to continue minimum business activity for a short period of time. We were informed by ABCC staff that these plans have not been tested. An external consultant's report also identified that there is no long-term system development strategy with respect to the information systems supporting the pharmacare system at ABCC.

Recommendation 7.4

We recommend that DOH develop a long-term system development strategy for the Pharmacare Program.

7.33 Evaluation of the drug programs - Program evaluation should play a valuable role in assessing the effectiveness of programs and whether program objectives are met. DOH has several important processes in place to assess the effectiveness of specific drugs and to control drug costs. For example, Department staff participated in the F/P/T (Federal/Provincial/Territorial) Task Force on Pharmaceutical Prices and the F/P/T Working Group on Drug Prices. Several studies were published by the Patented Medicine Prices Review Board on behalf of these groups. The studies provided comparative information on various aspects of the programs including cost drivers and drug price comparisons for each of the six participating provinces, including Nova Scotia. However, neither of the departments have completed comprehensive evaluations of the performance of the drug programs against expected outcomes and objectives. DCS management has indicated that they are currently in the process of undertaking an evaluation of the entire Employment Support and Income Assistance Program of which the Pharmacare Program is a component.

Drug Selection and Cost

7.34 Overall conclusion - We concluded that the process in place to assess drugs for inclusion in the Nova Scotia Formulary is comprehensive and includes a thorough review of the evidence, consideration of cost effectiveness and review by an expert advisory committee. The Department of Health has introduced a number of measures to control drug costs but we believe that additional options for controlling costs should be considered including both drug utilization and other options for procurement. Drugs used in acute care institutions in Nova Scotia are purchased through a national buying group at significant savings when compared to the Pharmacare Programs. Although we acknowledge that pharmaceutical companies ultimately control the cost of drugs and may be unwilling to reduce prices for drugs which are not used in a hospital setting, the potential savings to the program of even modest drug price reductions could be significant and warrants further study.

7.35 Drug selection - Eligible drugs available under the programs are listed as benefits in the Nova Scotia Formulary. The Formulary consists of prescription drugs, some prescribed ostomy supplies, prescribed diabetic supplies, including testing materials, needles and syringes, and a limited number of over-the-counter products. Approximately 4,300 individual medications are listed in the Formulary. During the 2002-03 fiscal year, 215 medications were added to the Formulary and 14 medications were deleted.

7.36 In January 2002, an Atlantic Common Drug Review (ACDR) process was established to improve the efficiency and quality of the review of new prescription drugs approved for sale in Canada and to provide listing recommendations to the respective Departments of Health for their drug plans. Each Department of Health has the option to accept or reject the listing recommendation based upon its priorities and resources. In September 2003, the process was replaced in part by the National Common Drug Review.

7.37 The Atlantic and National processes have different functions but operate in a complementary manner. A pharmaceutical company must formally request a drug be evaluated for benefit status. Written guidelines specify the information to be included in the manufacturer's submission. Independent observers review the submission and other clinical evidence and prepare a drug evaluation summary. The Atlantic Expert Advisory Committee (AEAC) or Common Drug Review make a listing recommendation including conditions and/or criteria for coverage, where appropriate. Provinces decide whether to accept the recommendation.

7.38 We examined the documentation supporting the recommendations made by AEAC for a sample of drugs reviewed by the committee in 2003. Based on our review of Nova Scotia procedures we noted that no formal criteria exist to evaluate the therapeutic efficacy and cost effectiveness of the drugs under review. Nova Scotia is not unlike other provinces in this respect. We noted that the evaluations included an assessment against available clinical evidence and included an opinion as to whether the additional cost of listing the drug was justified.

7.39 On September 1, 2003, the ACDR process was replaced in part by the National Common Drug Review (CDR) process. The CDR is a single process for reviewing new drugs and providing listing recommendations to participating federal, provincial and territorial drug benefit plans in Canada, except Quebec. The ACDR maintains its responsibility for old drugs with new indications, line extensions and class reviews.

7.40 The Nova Scotia Formulary Management Committee has not met since the creation of the ACDR, however, the structure has been maintained to deal with issues of a purely Nova Scotia nature should they arise.

7.41 Drugs submitted to the ACDR and the Nova Scotia Formulary Management Committee are prioritized and placed in the queue for review. Generally drug submissions are reviewed on a *first come, first done* basis although DOH management indicated that, where warranted, drugs with significant potential benefits would be reviewed before others in the queue. Based on our review of new drugs submitted to the ACDR during the 2002 calendar year, it took an average of 11 months after the submissions were received from the pharmaceutical companies to the announcement of the decision in the Pharmacare bulletin.

7.42 Continuous formulary review is important to determine whether medications should continue to be listed, covered under specific conditions or delisted. The Department does not regularly review medications listed in the Formulary to ensure that the listings continue to provide benefits, based upon current clinical knowledge and practice, and are cost effective.

7.43 Drug costs - Health Canada assesses all new drugs in Canada to ensure that they conform to the Federal Food and Drug Act and Regulations. The introduction price of new patented prescription and non-prescription drugs and the rate of price increase for existing patented drugs in Canada are regulated by the Patented Medicine Prices Review Board (PMPRB). The PMPRB is an independent quasi-judicial body created under the Federal Patent Act. The PMPRB has no authority to regulate the prices of non-patented drugs, including generics. Manufacturers of non-patented drugs establish drug prices.

7.44 There are a large number of factors which contribute to increase in the use and cost of drugs. These factors are shown on Exhibit 7.9.

7.45 In April 2000 the F/P/T Working Group on Drug Prices issued a report titled *Cost Driver Analysis of Provincial Drug Plans - Nova Scotia*. The study covered the fiscal periods from 1995-96 to 1998-99. The focus of the report was to disaggregate annual changes in the cost of drugs into five components: price effect, volume effect, entry of new drugs, existing drugs and other. The findings of the report suggest that utilization and entry of new drugs accounted for the largest increase in expenditures over the period with expenditures rising significantly despite little change in the average unit price of drugs. The report also indicates that the contribution of each of these factors to program costs can change dramatically from year to year.

7.46 Department of Health management informed us that the April 2000 report was the most recent detailed analysis of the specific cost drivers for the pharmacare programs in Nova Scotia, although potential cost drivers are examined annually in support of the Department's budget process. We believe that information on the specific cost drivers for the Province's programs needs to be obtained by management on a more timely basis so that action can be taken to manage cost increases where possible. We noted that a review of cost drivers is undertaken annually during the budgeting process, that drug class reviews are often undertaken to ensure continued value for drugs already listed on the formulary, and that various policies (such as Maximum Allowable Cost and clinical criteria) are applied when drugs are listed to ensure cost effectiveness of therapy prescribed.

7.47 Controlling drug costs - Pharmacies are generally reimbursed for the Actual Acquisition Cost (AAC) of a prescription filled for an eligible recipient. AAC includes the cost incurred by the pharmacy to purchase the drug. The pharmacy is also paid a dispensing fee for each prescription filled. The maximum amounts for dispensing fees are included in the agreement between the Province and the Pharmacy Association of Nova Scotia. There is no profit component for the pharmacy in respect to patented drugs billed to the program. The price the Pharmacare Program will pay for generic drugs is set by the program and is documented in the Maximum Allowable Cost (MAC) list. A 3-5% mark-up is added to the list price of these drugs.

7.48 The policy of adding a mark-up to MAC drugs is inconsistent with the overall program policy of reimbursing pharmacies for their actual acquisition cost of drugs. Based on an analysis of 2002-03 claims paid to pharmacies for both programs, DOH estimated that this mark-up resulted in additional costs to the programs of $1 million for the year.

Recommendation 7.5

We recommend that the Departments eliminate the mark-up paid to pharmacies for generic drugs.

7.49 The Department of Health has established several processes to control the cost of drugs being paid under the various drug programs which include the following:

- Interchangeable drugs - A maximum allowable cost (MAC) is established for drugs which have multiple suppliers and are deemed interchangeable (brand name drugs and their generic equivalents). The maximum cost paid for drugs in these interchangeable categories is the cost of the lowest priced drug plus a percentage mark-up. Every six months the prices for drugs assigned a MAC are reviewed and updated by ABCC. Our testing of a sample of claims paid in 2002-03 indicated that MAC prices were being used as described to us by management.

- Special MAC - A special MAC price can also be established for a group of drugs with similar therapeutic action.

- Exception status drugs - Coverage for certain drugs, called exception status drugs, must be approved according to criteria developed by the Expert Advisory Committees. Approval for these drugs is based upon either a review of a physician's written request by pharmacy consultants or the recording of criteria codes at the time the pharmacist bills the drug program on-line.

7.50 In November 2002, the Patented Medicine Prices Review Board prepared a report titled *A Study of the Prices of the Top Selling Multiple Source Medicines in Canada*, in which it examined the relationship of generic to equivalent brand name drug prices in

Canada and reported that "*the analysis showed that the average ratio of generic-to-brand name prices was 64.5% in 2001, relatively unchanged since 1996. In other words, prices of the top selling generic drugs were 35.5% below prices for the comparable brand name drugs.*" The Department of Health has established policies which enable the Pharmacare programs to benefit from the cheaper generic drugs.

7.51 Comparison with other jurisdictions - During our audit we inquired whether other jurisdictions use alternative methods to acquire drugs for their drug programs. For example, the Province of Saskatchewan has operated a bulk purchasing program for generic drugs called Standing Offer Contracts for many years. The province of Quebec has introduced legislation that requires drug manufacturers to supply drugs to that province's pharmacare programs at the lowest price available in the other provinces in Canada. The Nova Scotia Department of Health believes that it benefits from Quebec's policy. British Columbia's prices are based on standard manufacturers' price lists plus an approved mark-up.

7.52 During our audit we selected a sample of drugs and compared the price being charged the Nova Scotia drug programs to those in other jurisdictions. The sample consisted of the 20 most frequently prescribed drugs in Canada as defined by Health Canada. Results of the comparison indicated that the drug prices being paid in Nova Scotia compare favorably with those in other jurisdictions as shown in exhibit 7.10.

7.53 Comparison with Nova Scotia hospital drug costs - The Provincial Drug Distribution Plan (PDDP) is a program established by DOH and administered by the Capital District Health Authority. The PDDP bulk purchases drugs, primarily through a national buying group, for distribution to District Health Authorities for use in acute care facilities throughout the Province.

7.54 Although the PDDP was not included within the scope of our audit, we compared the cost of drugs obtained through the bulk purchasing initiatives at PDDP with the cost of the same drugs paid to pharmacies through the Pharmacare Programs. We tested 18 specific drugs purchased during 2002-03 (18 of the 20 most frequently prescribed drugs in Canada) and concluded that the PDDP purchased these drugs at a price which was, on average, 14.8% lower than the DOH and DCS cost through the Pharmacare Programs. We determined that the potential savings to the Pharmacare Programs if PDDP prices had been paid during 2002-03 for these 18 drugs only would have been $2.7 million. If the cost difference is similar for the remaining drugs in the formulary, the potential savings would be very significant and potentially in the range of $20 million for the seniors' and income assistance programs combined. Details of this comparison are also shown in exhibit 7.10.

7.55 We understand, through discussions with DOH management and our colleagues in other jurisdictions, that drug manufacturers tend to use the acute care sector as a means by which to introduce potential customers to their products and as such provide their products to acute care institutions at prices lower than those charged to pharmacare programs. The Department of Health indicates that these prices are exclusive to the acute care sector and therefore not available to the public Pharmacare Programs. We believe that, although obtaining the same low drug prices as the acute care sector may not be achievable, the potential for significant cost savings to the public Pharmacare Programs from even somewhat modest price reductions would justify DOH conducting a comprehensive analysis of the possible options for reducing drug prices. We also acknowledge that bulk purchasing is complex because of the need to consider such factors as warehousing, distribution and uncertainties about how the market would respond to such initiatives.

Recommendation 7.6

We recommend that the Department of Health identify and analyze possible options for reducing drug prices.

7.56 Verification of actual acquisition cost of drugs - Pharmacies bill the drug plans actual acquisition cost for drugs. The Tariff Agreement with the Pharmacy Association of Nova Scotia requires all rebates, allowances and free product given to pharmacies to be taken into account when the actual acquisition cost of drugs is determined. We were informed by management that it is difficult to identify and monitor whether pharmacies receive these benefits. However, ABCC conducts audits of these costs (see paragraphs 7.57 and 7.82).

7.57 A drug price analysis is prepared by ABCC every six months which compares the Provincial average price paid for each drug dispensed to the average drug cost for each pharmacy. All claims paid over $1,000 are also reviewed to identify potential submission errors. As a result of these analyses, pharmacare auditors at ABCC may decide to conduct an actual acquisition cost audit on selected pharmacies.

7.58 Dispensing fees - DOH and the Pharmacy Association of Nova Scotia negotiate the fees paid to pharmacies for dispensing prescriptions. Pharmacies bill the drug programs the lesser of their usual and customary fee charged to cash customers or the maximum dispensing fee per prescription specified in the Agreement. During our testing of a sample of claims paid we concluded pharmacies are being paid in compliance with the Agreement.

Physician Prescribing Practices and Monitoring of Drug Usage

7.59 Overall conclusion - Although the DOH has several initiatives in place designed to influence physician prescribing practices and monitor drug usage, there is more that could be done to enhance these activities. The introduction of electronic health records would improve the monitoring of drug utilization and would give providers the information needed to monitor drug interactions. DOH should ensure that activities influencing prescribing practices, such as physician participation in academic detailing, are enhanced and that monitoring of drug usage is improved.

7.60 Physician prescribing practices - The Department of Health has established a number of initiatives to provide physicians with unbiased, critically appraised information about best practices related to the prescribing of drugs for various conditions. The objective of these initiatives is to ensure physicians have the most up-to-date clinical information available when making decisions regarding the prescribing of drugs and to explain the information in clinically meaningful terms so that physicians can understand how their decisions will impact patient outcomes. The risk of using outdated information or new information that has not been critically appraised is that physicians may prescribe a drug unnecessarily, prescribe an expensive drug rather than a cheaper equally effective alternative, or prescribe the wrong drug or the wrong dose. The major initiatives in this area are described below.

- DOH staff have informed us that Canadian clinical practice guidelines for virtually every common disease or condition are readily available to prescribers. One of the objectives of these guidelines is to assist physicians in determining the most clinically appropriate and cost-effective treatments (including drugs) for certain medical conditions. The Department of Health, through its various initiatives, critically appraises guidelines issued by other bodies to determine whether the information is adequately supported by evidence. The results of that process are communicated through changes to the formulary and through educational interventions to prescribers.

- The Drug Evaluation Alliance of Nova Scotia (DEANS) was established in 1998 with a mandate to contribute to the health of Nova Scotians by addressing critical drug care issues and encouraging appropriate drug use. DEANS develops interventions to address critical drug issues. These interventions can include multi-faceted educational programs, academic detailing and physician profiling and feedback.

- An academic detailing service was introduced in Nova Scotia in 2001. Academic detailing is a process by which a health educator visits a physician to provide a 15-20 minute educational intervention on a specific topic. Dalhousie University Continuing Medical Education administers the program and funding is provided by the DOH. DEANS provides direction on the specific topics to be addressed, monitors the execution and evaluation of each intervention, and oversees complementary interventions. Participation in the program is voluntary. DOH staff have informed us that currently 57% of the primary care physicians have participated in at least one academic detailing session. The Department's long-term (ten year) goal is to achieve a participation rate of 70%. A research study conducted by Dalhousie University Continuing Medical Education is identifying the barriers to participation. The Department of Health indicated that Australia has had a similar program for ten years and that the participation rate is still only 63%.

- In 2004 the Conference of Deputy Ministers of Health approved the establishment of the Canadian Optimal Medication Prescribing and Utilization Service (COMPUS) by the Canadian Coordinating Office on Health Technology

(CCOHTA). The purpose of the initiative is to provide a centre of expertise in best practices in drug prescribing and use. This program will collect, evaluate and distribute best practice information, facilitate best practices among health care providers and patients and coordinate its activities with Canadian and international initiatives.

Recommendation 7.7

We recommend DOH increase the number of primary care physicians meeting with academic detailers by identifying and addressing the barriers to participation.

7.61 Monitoring of drug usage - Drug utilization review is an ongoing process that analyzes prescribing patterns as well as the use of drugs by clients against established criteria. The Department conducts broad drug utilization reviews through DEANS and as part of the drug evaluation process of the Atlantic Expert Advisory Committee (AEAC). In addition, the DOH and ABCC are developing a patient-specific drug utilization review program. Department and ABCC staff are currently focusing on reviewing prescriptions filled for individual clients whose drug costs are among the top ten most expensive in the Province for a particular month. If the review suggests the drugs prescribed to these clients appear unusual, a letter is sent to the physician requesting additional information. Additional follow-up may be undertaken if the information provided by the physician requires further clarification. DOH management have informed us that, when compared with the broader drug utilization reviews done by DEANS and the AEAC, the patient-specific drug utilization review process is more labor and time-intensive and has yielded minimal drug utilization management results. However, we believe that a sound utilization management approach requires monitoring of both general data related to the entire Pharmacare population and specific data related to individual patients who have high numbers of prescriptions and/or high costs.

Recommendation 7.8

We recommend DOH continue and enhance its drug utilization review activities to ensure that both general and specific data related to both providers and patients is examined and followed up on a regular basis.

7.62 Checking for drug interactions - Pharmacies in the Province use one of several different software systems to record information on prescriptions filled. All of these software systems provide pharmacists with on-line warnings and information messages concerning potential drug therapy problems using the client's previous prescription information. These systems can only identify potential drug therapy problems based on prescriptions filled at their pharmacy as the individual pharmacy systems are not linked to share such information. The risk is that some potentially serious drug interactions may not be identified by the pharmacist due to a lack of complete information about prescriptions filled at other pharmacies.

7.63 While the responsibility for checking for potential drug interactions rests with the providers (pharmacies, physicians and nurse practitioners), in some other provinces, central information systems maintain data on all prescriptions filled in the province and provide this information to the providers so they can check for potential drug interactions. The electronic patient record (EPR) project within the DOH would begin to create the functionality to achieve this for Nova Scotia. However, at present the Province does not have the legislative authority to collect and analyze information on all prescriptions filled for all residents of Nova Scotia and to make this information available to providers. DOH management indicated that the estimated cost of such a system is $25 million.

Recommendation 7.9

We recommend DOH seek the legislative authority to collect and analyze drug information for all Nova Scotia residents and move toward a full electronic health record to provide pharmacists, nurse practitioners and physicians with complete information to assist in the identification of potential drug interactions.

7.64 Trends and comparisons with other jurisdictions - Nova Scotia is currently participating in a number of initiatives with other jurisdictions relating to the examination of drug utilization including those described below.

- Task Group on Pharmaceutical Indicators - Under the auspices of the F/P/T Pharmaceutical Issues Committee, the Task Group is charged with exploring methodologies for development of comparable indicators, which the provinces can generate from their own data, for standardized national reporting (N.S. is chair of this Committee).
- F/P/T Task Group on Drug Pricing and Strategies - Through this Task Group, jurisdictions are collaborating on addressing pharmaceutical pricing issues.
- National Prescription Drug Utilization Information System (NPDUIS) - Under the auspices of NPDUIS, the Patented Medicine Prices Review Board (PMPRB) has responsibility to generate research to identify price, utilization and cost trends both within and between jurisdictions. Nova Scotia has made a number of preliminary data submissions to the PMPRB and hopes to receive its first statistical reports in the fall of 2004.

7.65 Monitoring of narcotics - Monitoring of narcotics in Nova Scotia is currently the responsibility of the Prescription Monitoring Association of Nova Scotia (PMANS). It is a not-for-profit organization established in 1992 to monitor the prescribing and use of narcotics and controlled drugs issued within the Province with the goal of reducing the abuse and diversion of these drugs. The program also provides information to physicians and pharmacists so they can make more informed decisions in prescribing and dispensing these drugs. Although the program is governed by PMANS, administration of the program has been contracted to ABCC and funded by the DOH. The program includes all drugs dispensed and not just those covered under the Province's Pharmacare programs.

7.66 ABCC receives copies of all narcotic prescriptions dispensed from each pharmacy in the Province. This information is then manually entered into a computer system at ABCC where analysis is performed to identify possible cases of abuse. We noted that because information is being received and inputted manually by ABCC, the analysis and subsequent information being provided to physicians and pharmacists is not as timely as it would be if all systems were integrated. DOH management indicated to us that the cost of creating an on-line computer system for the program is estimated at $400,000 and that the funding is expected to be received in 2005-06.

7.67 Although the program is funded by the DOH, there was no clearly defined accountability relationship between the Association and the Department. The Association was not supported by any legislative authority to enable it to intervene when issues were identified. In October 2004, the Prescription Monitoring Act was passed which establishes the Nova Scotia Prescription Monitoring Board and provides legislative authority for the Board to establish and operate a prescription monitoring program in the Province. The objective of the program is to promote the appropriate use, as well as reduction in misuse, of monitored drugs.

Recommendation 7.10

We recommend DOH establish a real-time electronic system to track utilization of drugs monitored by the Prescription Monitoring Association of Nova Scotia with the goal of flagging issues before prescriptions are dispensed.

Eligibility and Payments by Insured Persons

7.68 Overall conclusion - We concluded there are adequate processes in place to ensure only eligible people are enrolled in the various programs. There are also appropriate controls in place to ensure that annual premium and co-payment amounts for each prescription filled are being billed and collected as required.

7.69 Seniors' Pharmacare Program eligibility - There is a formal process to establish the amount of the annual premiums and co-payments required to be paid by seniors under the program. As part of the process, program changes are recommended by the Seniors' Secretariat which consults with the Group of IX Seniors' Organizations. The recommendations of the Seniors' Secretariat are reviewed by DOH staff and are considered when submitting changes to Treasury and Policy Board for review and approval.

7.70 Terms and conditions for acceptance into the Seniors' Pharmacare Program are outlined in an annual Information Booklet. A copy of the Booklet is included in the initial registration and yearly renewal packages sent out to seniors. Information on the program is available on DOH's website and information can be obtained by calling the Department's toll free number.

7.71 ABCC has established an annual registration process to determine client eligibility. During this process it determines whether seniors are eligible for coverage and the amount of the annual premium they will be required to pay. Seniors receiving the Guaranteed Income Supplement (GIS) are exempted from paying the premium. Annual income levels and GIS recipients are verified with the appropriate federal government agency or department.

7.72 Based on our testing of a sample of seniors receiving benefits under the program during 2002-03, we concluded that there are appropriate procedures and controls in place to ensure only eligible seniors receive benefits, and that all premiums are being billed and collected as required.

7.73 The Seniors' Pharmacare Program is an insurer of last resort. All seniors who have coverage under another drug plan are not entitled to benefits under the Seniors program. Currently, seniors are required to self-declare coverage under another drug plan.

7.74 Community Services Pharmacare Program eligibility - To be eligible to receive benefits under the Community Services Pharmacare Program the individual must meet criteria established to receive income assistance under the Employment Support and Income Assistance Act, and must not be eligible to receive coverage under a private insurance plan. The ABCC claims payment system is updated on a daily basis via an electronic file of eligible clients provided by DCS. Based on our testing of a sample of claims paid during 2002-03, we concluded that only eligible clients were receiving prescriptions paid for by the program.

7.75 Other disease specific drug programs - Program terms and conditions for the disease specific drug programs are contained in policies developed by the Department of Health and described in Exhibit 7.1. Clients are not required to pay annual premiums and only certain drug programs have prescription co-payment requirements. We tested a sample of claims for disease specific drugs processed by ABCC and concluded that claims paid under these programs were for eligible clients. Inconsistencies in the various programs are due to the evolution of the programs over the years. Inconsistencies make the programs difficult to administer and explain.

Recommendation 7.11

We recommend that each of the disease specific drug programs be reviewed to ensure that the rationale for the program is still valid and that the coverage provided by the various programs is consistent.

Compliance of Billed Transactions

7.76 Overall conclusion - We reviewed the system to process claims and concluded controls are generally adequate. We concluded there is appropriate monitoring of claims under the Seniors'and Community Services drug programs. We recommended the scope of monitoring activities be extended to the disease specific programs.

7.77 Edit and assessment of claims - We documented and reviewed the system used by ABCC to process electronic claims and concluded controls are adequate.

7.78 Prior to being approved for payment, pharmacy claims are subjected to numerous electronic edit checks designed to detect inappropriate claims. Edit checks include searching for duplicate claims, ensuring a valid subscriber Health Card number, ensuring the pharmacy identification number is valid, and ensuring the drug identification number has been approved as a benefit. The system calculates the amount of the claim based upon adjudication rules and staff at the pharmacy is notified of the amount to be collected from the subscriber.

7.79 ABCC receives manual and batch claims under the disease specific programs. We reviewed the system to process manual claims and concluded controls could be strengthened. ABCC staff ensure the client is registered with a clinic, an eligible drug has been prescribed and the correct dispensing fee has been paid (if applicable). ABCC staff are not required to verify the reasonableness of the drug cost claimed. These claims are not subject to the regular ABCC audit process. Controls for processing of manual claims at ABCC could be improved through appropriate segregation of duties and review by a second person as well as inclusion in the ABCC audit plan.

Recommendation 7.12

We recommend that the controls over claims related to disease-based programs be strengthened to include audit verification, appropriate segregation of duties and assessment of the reasonableness of drug costs.

7.80 Our audit included testing a sample of 60 drug claims during 2002-03 for compliance with program terms and conditions as well as the Tariff Agreement with the Pharmacy Association of Nova Scotia. Our sample included claims paid under all drug programs except the exception drug fund. As a result of our testing, we concluded that payments are accurate and in accordance with the terms and conditions of programs and contract requirements.

7.81 ABCC Monitoring and Statistics work - The Monitoring and Statistics Division of ABCC is responsible for monitoring payments to providers under the Seniors' Pharmacare and Community Services Pharmacare Programs. DOH approves all audit procedures and audit recovery guidelines used by the Division.

7.82 Various types of audit tools, including the following, are used to verify claims submitted by pharmacies.

- Service verification letters are sent to a random sample of clients of each pharmacy to determine if the services claimed were the services actually provided.
- On-site prescription audits are performed to verify that the contents of the claims agree with the prescriptions, prescriptions include all required information, and the quantity and maximum number of refills are not exceeded.
- Actual acquisition costs audits are conducted to ensure the programs are being charged the actual drug costs incurred by the pharmacies in accordance with the Tariff Agreement.

7.83 If audits reveal instances of inappropriate billing, the funds are recovered from the pharmacy in accordance with the audit recovery guidelines.

7.84 ABCC produces an annual report summarizing the results of audit activity each year. The report is provided to DOH for information. The 2002-03 report included the following statistics.

- 13,602 service verification letters were sent out with an 88% response rate.
- 171 prescription audits were conducted resulting in recoveries of $321,560.
- 199 actual acquisition cost audits were conducted resulting in recoveries of $135,706.

7.85 The Division's goal is to audit every pharmacy once every two years. Pharmacies may be subject to more frequent audit if the average day's supply of drugs dispensed is not consistent with the Provincial average or the average acquisition cost of drugs is not consistent with the Provincial average.

7.86 We reviewed a sample of audits conducted and concluded the audits were conducted in accordance with the procedures and guidelines established by the Division.

7.87 Scope of monitoring activity - All drug programs should be subject to monitoring activities. ABCC's monitoring activity is confined to computer claims processed under the Seniors' and Community Services Pharmacare Programs. No monitoring is performed on the manual claims processed under these programs or the disease specific drug programs Manual claims processed by DOH for the exception drug fund are reviewed and approved on a monthly basis.

Exception Drug Funding

7.88 The QEII Health Sciences Centre and IWK Health Centre administer the exception drug fund on behalf of DOH (see Exhibit 7.7).

7.89 QEII and IWK staff at the clinics are required to determine client eligibility based on the guidelines established by the DOH. Coverage is restricted to Nova Scotia residents on an outpatient basis only, and only to be provided if the clients do not have any other means of obtaining the drugs at a reasonable cost, such as third party insurance coverage. We were informed by QEII management that, due to a lack of resources, few clinics at the QEII are actually making this determination and as a result these programs may be covering drug costs for patients who are actually ineligible for the program.

7.90 DOH receives a monthly summary invoice from the QEII for the cost of the drugs dispensed by the QEII under exception drug funding. DOH, prior to paying the invoice, will ensure that only eligible drugs are being invoiced and DOH will also verify the mathematical accuracy of the bill. The invoice is also assessed for reasonableness by comparing to drug costs on previous invoices. Because the QEII only submits summary invoices, limited analysis of program costs can be made. DOH receives additional information with respect to the number of clients receiving drugs or the number of prescriptions being issued for some exception drug programs but not all. At present the DOH does not conduct any audit verification of the reasonableness of drug costs claimed by the QEII or whether patients are eligible for coverage. As an example, we examined the home address of all patients who received prescriptions for mycophenolate based on the QEII's January 2004 invoice to the DOH. We discovered that of the $93,144 billed, $3,105 was billed incorrectly under the terms of the program. This represents a 3% error rate. These patients should have been considered as inpatients and therefore not eligible for the program. The cost of the drugs should have been borne by the facility where they were registered as inpatients. Management of the Capital District Health Authority indicated that they do not have the means or resources to assess whether a client meets eligibility criteria for exception drug funding.

Recommendation 7.13

We recommend the Department of Health put processes in place to ensure that it is receiving sufficient information from the QEII and the IWK to allow detailed analysis of program costs and to ensure only eligible patients receive prescriptions covered by the Exception Drug Fund.

Reporting to the Legislature

7.91 Performance reporting - The annual Estimates and Public Accounts of the Province, tabled in the House of Assembly, contain information on the financial operation of the drug programs.

7.92 The recoveries and expenditures of the Insured Prescription Drug Plan Trust Fund are reported to the House of Assembly through its audited financial statements.

7.93 We noted the information presented by the Department to the Legislature does not describe the various drug programs being offered, explain significant issues and risks and describe past and expected future performance. Minimal financial information is being presented and there is no statistical information and analysis being provided. Some of this information is available to the general public via the DOH website which includes the Department's Annual Statistical Report and Supplement.

Catastrophic Drug Coverage

7.94 Government has recognized that many Nova Scotians do not have drug coverage and one of the priorities identified in the DOH Business Plan is the development of a catastrophic drug plan. On February 5, 2003 the First Ministers agreed to a new Federal/Provincial Health Accord. As part of this Accord, a new $16 billion Health Reform Fund was established by the Federal Government to target three priority reform activities: the expansion of new models of primary health care; home care; and catastrophic drug coverage. Department management indicated to us that staff is developing a proposal for an expanded prescription drug insurance program. Funding has not been allocated to this initiative.

CONCLUDING REMARKS

7.95 Drug therapy is an important part of an integrated health care system in Canada. Appropriate drug therapy has the potential to reduce costs in other aspects of the health system such as acute care and long-term care. Drug programs offered by all governments in Canada have been experiencing rapidly increasing costs. Despite the Nova Scotia government's best efforts to control costs by introducing initiatives such as a strong pharmacy audit regime, setting maximum acquisition costs based on equivalent drugs, requiring special approvals for funding of certain drugs, a thorough formulary management process and programs designed to positively influence physician prescribing, costs continue to increase.

7.96 From our review of cost data from other provincial programs in Canada, Nova Scotia drug costs compare favourably with those of other provinces. A comparison between drug prices paid by acute care institutions in Nova Scotia and the Province's Pharmacare programs show that acute care institutions pay significantly less for the same drugs than the prices paid by Nova Scotia's Pharmacare Programs. Drugs in Nova Scotia's acute care sector are purchased by the Nova Scotia Provincial Drug Distribution Program through a national buying group representing many large hospitals in Canada. Although we acknowledge that pharmaceutical companies ultimately control the cost of drugs and may be unwilling to reduce prices for drugs which are not used in a hospital setting, the potential for savings from even modest price reductions warrants the exploration of possible options to the current system.

7.97 Monitoring of drug prescribing and utilization is essential to ensure that eligible program participants are receiving optimal drug therapies at the lowest possible cost. The Department of Health and Atlantic Blue Cross Care have implemented processes for monitoring drug utilization. However, the ability to monitor is limited by deficiencies in the current information systems. For example, there is no system which monitors drugs for potential negative drug interactions. Individual pharmacies have such systems, but they only monitor the drugs purchased by the person at that pharmacy - not from other pharmacies. The monitoring of drug use by individual patients, physician prescribing habits, and efforts to educate physicians on proper prescribing should be enhanced.

7.98 We acknowledge that the Nova Scotia government has taken measures to control drug costs and utilization, but there is more that should be done.

7.99 As noted in the opening paragraphs of this chapter, this was a concurrent audit with legislative auditors of eight other Canadian jurisdictions using a common audit plan and methodologies. We communicated with our colleagues throughout the audit and were able to share information on best practices and benchmarks. We believe that this approach was beneficial in allowing us to produce realistic recommendations for program enhancement and we look forward to participating in more collaborative audits in the future.

Summary of Key Program Terms and Conditions Concerning Eligibility, Drug Coverage, Annual Premiums and Co-payments for the Year Ended March 31, 2003

Exhibit 7.1

Seniors' Pharmacare Program

- Authority to administer the Program is the Health Services and Insurance Act, Seniors' Pharmacare Regulations, Insured Prescription Drug Plan Regulations and Pharmacare Tarriff Regulations.
- Seniors must be a Nova Scotia resident, covered under MSI (Medical Service Insurance); and be at least 65 years of age.
- Seniors with coverage under a private drug plan, Veterans Affairs Canada or First Nations or Inuit Health are not eligible to join.
- Eligible drugs are listed in the Nova Scotia Formulary.
- Seniors who receive the Guaranteed Income Supplement (GIS) do not pay a yearly premium.
- Seniors who do not receive the GIS pay a premium up to $336 per year.
- Seniors qualify for a reduced premium if they are single and have income less than $24,000 or are married and have income less than $28,000.
- The co-payment for each prescription filled is 33% of the total prescription cost up to a maximum of $350 per year. The minimum co-payment is $3 and the maximum co-payment is $30.

Cancer Program

- Authority to administer the Program is an Order in Council.
- Clients must be a Nova Scotia resident under the age of 65 and covered under MSI.
- Clients with coverage under another government program (Community Services Pharmacare, Workers' Compensation Board, Veterans Affairs Canada or First Nations or Inuit Health) are not eligible.
- Gross family income must be less than $15,720 per year.
- Clients must have a confirmed diagnosis of cancer.
- Eligible drugs are contained in the Nova Scotia Formulary.
- There is no annual premium or co-payment.

Other Disease Specific Programs

- Authority to administer the Program is various Orders in Council or the general powers of the Minister contained in Section 13(1)(g) of the Health Services and Insurance Act.
- Clients must be a Nova Scotia resident under the age of 65 and covered under MSI.
- Clients with coverage under another government program are not eligible.
- Clients must have a confirmed diagnosis of cystic fibrosis, diabetes insipidus, growth hormone deficiency or multiple sclerosis.
- Client must be registered at the applicable clinic at the QEII or IWK Health Centre.
- Eligible drugs and equipment are contained in Department of Health policies.
- There is no annual premium.
- The co-payment for each prescription filled is $9.35.

Exception Drug Programs

- Authority to administer the Program is the general powers of the Minister contained in Section 13(1)(g) of the Health Services and Insurance Act.
- Clients must be a Nova Scotia resident and covered under MSI.

- Clients must have no other means for obtaining funding for the drugs (private health insurance, Workers' Compensation Board, Veterans Affairs Canada or First Nations or Inuit Health).
- The client requires treatment for organ transplantation, renal failure, multiple sclerosis, HIV / AIDS, HIV hemopliacs, neutropenia and schizophrenia.
- Clients must be registered at the appropriate clinic at the QEII or IWK Health Centre or prescriptions require the approval of an authorized physician.
- Eligible drugs are contained in Department of Health policies.
- There is no annual premium.
- The co-payment for each prescription filled is $9.54.

Community Services Pharmacare

- Authority to administer the Program is the Employment Support and Income Assistance Act and Regulations, and Social Assistance Act.
- Clients and their dependents must be in receipt of Income Assistance.
- Clients must be accessing Community Supports for Adults (Homes) and do not have coverage under another drug plan.
- Eligible drugs as included in the Nova Scotia Formulary.
- There is no annual premium.
- The co-payment for each prescription filled is $5. There is an exemption for clients with disabilities who have large, on-going monthly prescription drug costs or require small dosage amounts taken on a frequent basis.

Exhibit 7.2

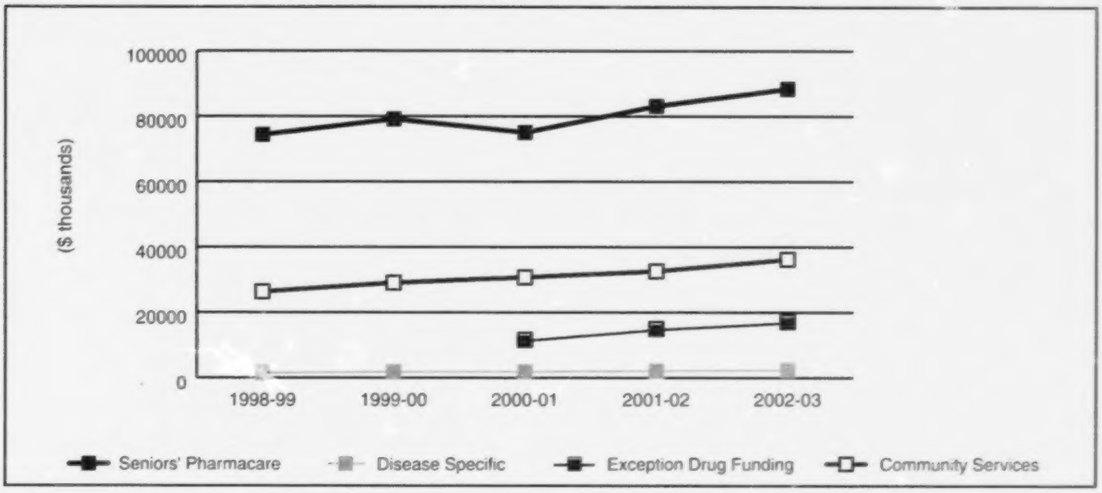
Drug Program Statistics - Year Ended March 31, 2003

	Gross Expenditures ($ thousands)	Number of Beneficiaries	Prescriptions Dispensed	Expenditure Per Beneficiary ($)
Seniors' Pharmacare	123,669	94,593	2,883,326	1,307
Cancer	591	370	N/A	1,597
Cystic Fibrosis	826	151	N/A	5,470
Growth Hormone	521	43	N/A	12,125
Diabetes Insipidus	116	69	N/A	1,679
Multiple Sclerosis	323	N/A	N/A	N/A
Exception Drug Funding	17,137	N/A	N/A	N/A
Community Services Pharmacare	37,504	45,976	865,802	816

Note: Certain information is not available and is noted as N/A in the Exhibit.

Net Drug Program Expenditures (after premiums and co-payments are deducted)

Exhibit 7.3



Note 1: *In 1998-99 and 1999-2000 exception drug funding was included in the budget of the QEII Health Sciences Centre.*

Note 2: *From 1998-99 to 2002-03, there were changes in the annual premium and co-payments paid by seniors under the Seniors' Pharmacare Program. During this period gross expenditures increased from $99.3 million to $123.7 million, a 25% increase in costs.*

Seniors' Pharmacare Program Revenue by Source - 2002-03

Exhibit 7.4

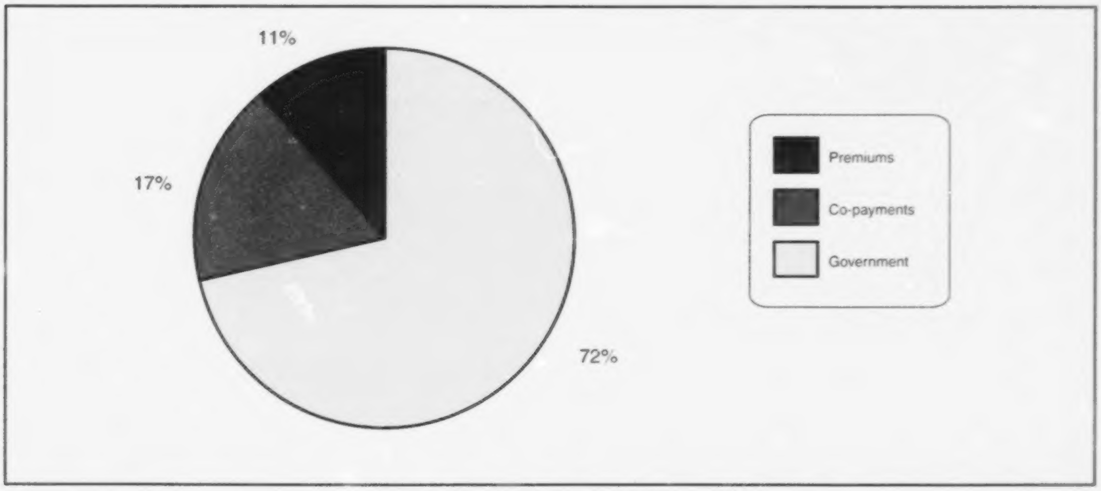
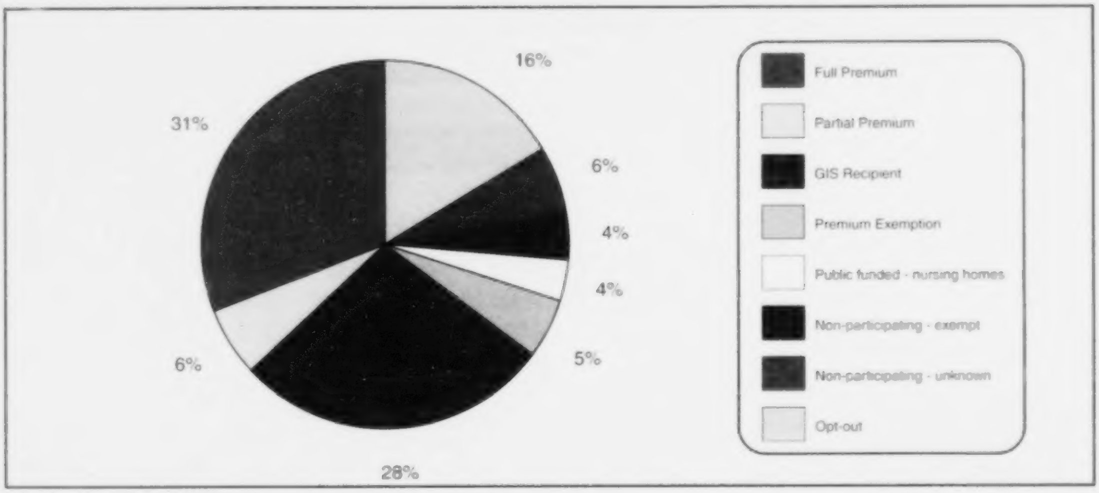


Exhibit 7.5

Nova Scotia Seniors' Status with Respect to Pharmacare - 2002-03



Note: Enrolment statistics were obtained from the Seniors' Pharmacare computer system. The difference between the estimated number of seniors (as estimated by Statistics Canada) and the seniors recorded in the computer system are included in the category entitled Non-participating - unknown. DOH staff have been unable to determine who these seniors are. DOH staff believe there may be some seniors who are eligible for a full or partial premium exception who are paying the full premium; however, DOH staff also have no way of determining who these seniors are.

Exhibit 7.6

Roles and Responsibilities of Organizations Involved in the Prescription Drug Program

Atlantic Blue Cross Care (ABCC) - In 1999 Maritime Medical Care and Blue Cross of Atlantic Canada join operations and assumed the name Atlantic Blue Cross Care. Since 1969, this organization has administered the Medical Services Insurance (MSI) program for the Province of Nova Scotia. The MSI program includes the issuance of health cards and the maintenance of health care records for all residents of the province and the payment of more than 11 million medical and drug claims annually from a wide variety of health care providers.

Atlantic Expert Advisory Committee (AEAC) - AEAC is an expert advisory committee composed of health and other professionals with expertise in drug therapy and drug education from Atlantic Canada. The committee makes listing recommendations to each of the participating Provinces regarding the listing of new drugs or combination drugs in their formularies. Funding for the Atlantic Common Drug Review is provided by the four participating Provinces.

Canadian Coordinating Office for Health Technology Assessment (CCOHTA) - CCOHTA is an independent, non-for-profit organization that is funded by the Canadian federal, provincial and territorial governments. The mission of CCOHTA is to encourage the appropriate use of health technology by influencing decision makers through the collection, analysis, creation and dissemination of information concerning the effectiveness and cost of technology and its impact on health. CCOHTA administers the Common Drug Review program and the Canadian Optimal Medication Prescribing and Utilization Service (COMPUS).

Prescription Monitoring Association of Nova Scotia (PMANS) - PMANS is a non-profit organization whose mandate is to reduce the abuse and diversion of controlled and restricted drugs under the federal Controlled Drugs and Substances Act. The governing board of PMANS consists of a representative from six self-governing organizations. DOH is represented by two non-voting members on the board. PMANS receives administrative assistance from ABCC. The board establishes policy that guides the Prescription Monitoring Program. PMANS is funded by the Department of Health.

Dalhousie University Continuing Medical Education - Dalhousie University Continuing Medical Education administers an academic detailing program which is funded by DOH. DEANS provides direction on the specific topics addressed.

Drug Evaluation Alliance of Nova Scotia (DEANS) - DEANS was established to contribute to the health of Nova Scotians by encouraging appropriate drug use. DEANS obtains and analyzes information; provides relevant information to Nova Scotian decision-makers, practitioners and consumers; and evaluates the impact of the information and the methods of its dissemination on policy making, practitioner behavior and consumer outcomes. Members of the Management Committee are appointed by DOH. DOH is represented by non-voting members of the management committee. Although DOH funds DEANS, external funding might be sought for special projects.

N.S. Seniors' Organizations - Group of IX - This group represents seniors' organizations in Nova Scotia. A committee of nine members makes recommendations to the Minister of Health on changes to the Seniors' Pharmacare program. Administrative support is provided by DOH.

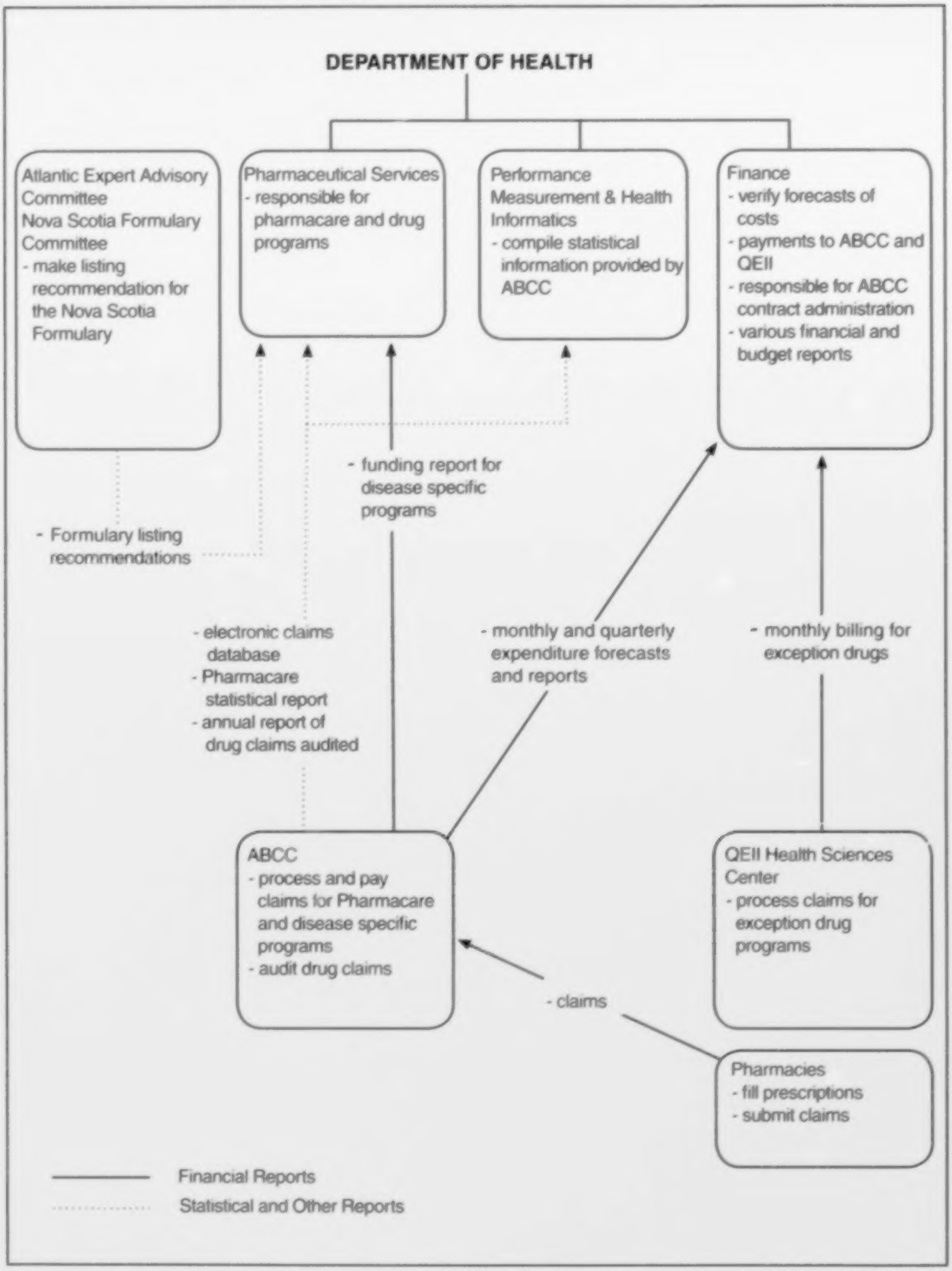
Health Canada - The Therapeutic Products Directorate of Health Canada regulates pharmaceutical drugs and medical devices for human use. Prior to being given market authorization, a manufacturer must present substantive scientific evidence of a product's safety, efficacy and quality as required by the federal Food and Drugs Act and Regulations. Formal authorization to market or distribute a drug is granted to a drug manufacturer through a Notice of Compliance.

Nova Scotia Formulary Management Committee - This expert advisory committee is composed of medical specialists, family practitioners and pharmacists appointed by DOH. The committee makes recommendations to DOH regarding the management of the Nova Scotia Formulary. DOH provides funding and administrative support for operation of the committee.

Patented Medicine Prices Review Board (PMPRB) - The PMPRB was created in 1987 under the federal Patent Act as an independent, quasi-judicial tribunal. The PMPRB is responsible for regulating the prices that manufacturers charge for all patented medicines, new and existing, sold in Canada, under prescription or over the counter, to ensure they are not excessive. Pursuant to an agreement by the Federal/Provincial/Territorial Ministers of Health and at the request of the federal Minister of Health, the PMPRB reports its research studies conducted under the National Prescription Drug Utilization Information System (NPDUIS) on the utilization and management of pharmaceutical products in Canada.

Exhibit 7.7

Pharmacare and Drug Programs
Summary of Responsibilities and Reports Submitted


DEPARTMENT OF HEALTH
Atlantic Expert Advisory Committee
Nova Scotia Formulary Committee
- make listing recommendation for the Nova Scotia Formulary
Pharmaceutical Services
- responsible for pharmacare and drug programs
Performance Measurement & Health Informatics
- compile statistical information provided by ABCC
Finance
- verify forecasts of costs
- payments to ABCC and QEII
- responsible for ABCC contract administration
- various financial and budget reports
- funding report for disease specific programs
- Formulary listing recommendations
- electronic claims database
- Pharmacare statistical report
- annual report of drug claims audited
- monthly and quarterly expenditure forecasts and reports
- monthly billing for exception drugs
ABCC
- process and pay claims for Pharmacare and disease specific programs
- audit drug claims
QEII Health Sciences Center
- process claims for exception drug programs
- claims
Pharmacies
- fill prescriptions
- submit claims
Financial Reports
Statistical and Other Reports

Summary of Responsibilities and Reports Submitted

Exhibit 7.8

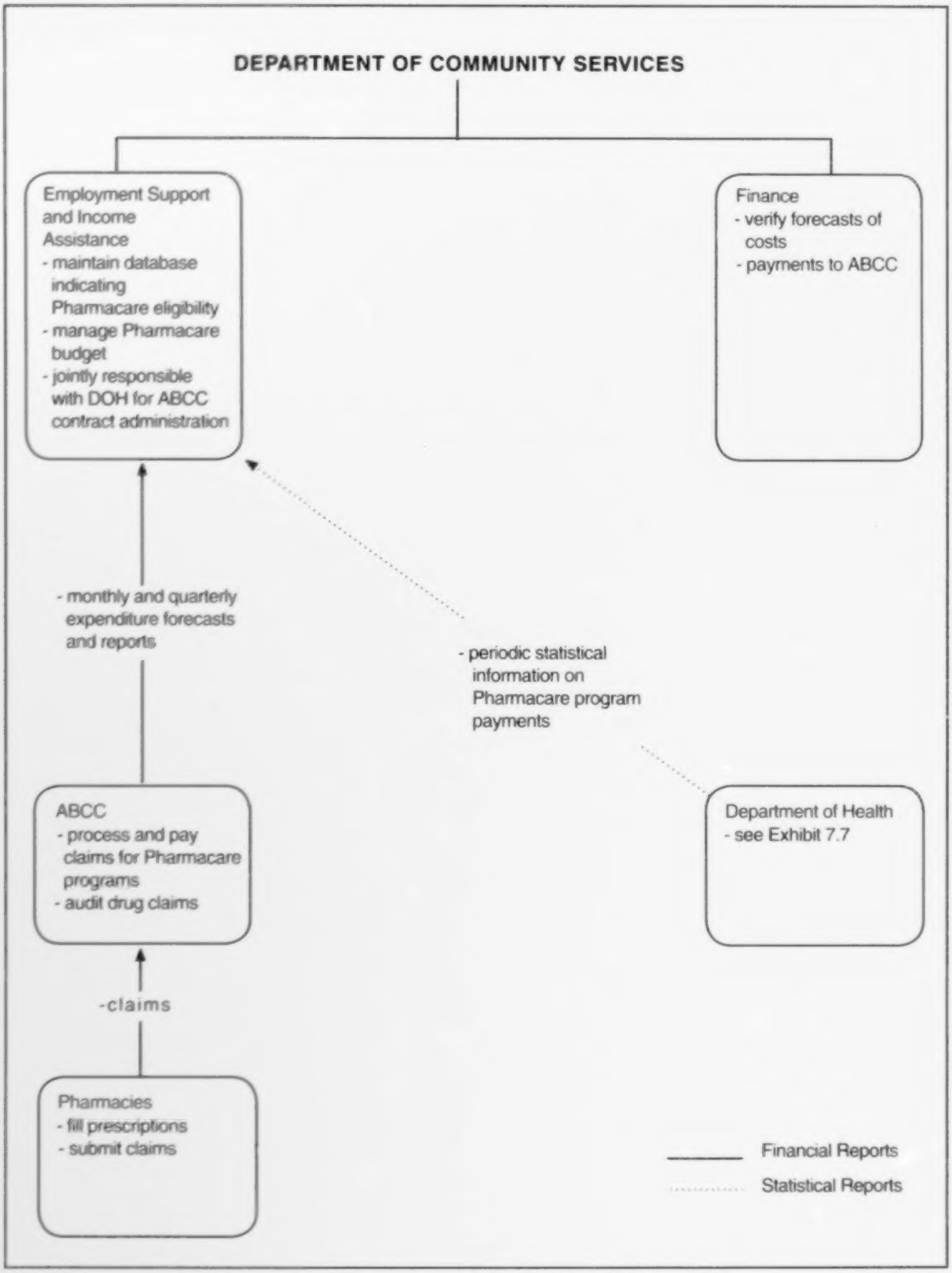

DEPARTMENT OF COMMUNITY SERVICES
Employment Support and Income Assistance
- maintain database indicating Pharmacare eligibility
- manage Pharmacare budget
- jointly responsible with DOH for ABCC contract administration
Finance
- verify forecasts of costs
- payments to ABCC
- monthly and quarterly expenditure forecasts and reports
- periodic statistical information on Pharmacare program payments
ABCC
- process and pay claims for Pharmacare programs
- audit drug claims
Department of Health
- see Exhibit 7.7
-claims
Pharmacies
- fill prescriptions
- submit claims
Financial Reports
Statistical Reports

Exhibit 7.9 Factors That Affect Drug Expenditure and Utilization

PRICES

Entry of New Drug Chemicals

Volume of Drug Use

- Population-related
  - Changes in total population
- Changes in population demographics
  - Age, gender and ethnicity
- Changes in health status of a population
  - Emergence of new diseases
  - Epidemics

System-related

- Changes and transition associated with health system reform and restructuring
  - Move towards shorter hospital stays and home/community care (shift of drug provision from hospital to community)
- Change in policies and programs
  - The extent of formulary listings
  - Eligibility and co-payments
- Availability of third party insurance coverage

Research and technology-related (clinical and informational)

- New treatment approaches
  - Drugs replacing surgery
  - Drug therapy for previously untreatable diseases
  - Availability of more and/or improved diagnostic technology
  - Outcomes research, evidence-based preventive or curative approaches in diagnosis or treatment
- Use of programs and technology in monitoring patients

Pharmaceutical industry

- Development of new drug products (e.g., new strengths, new drug forms and presentations)
- Promotion of drugs to physicians
- Drug sampling
- Direct to consumer advertising

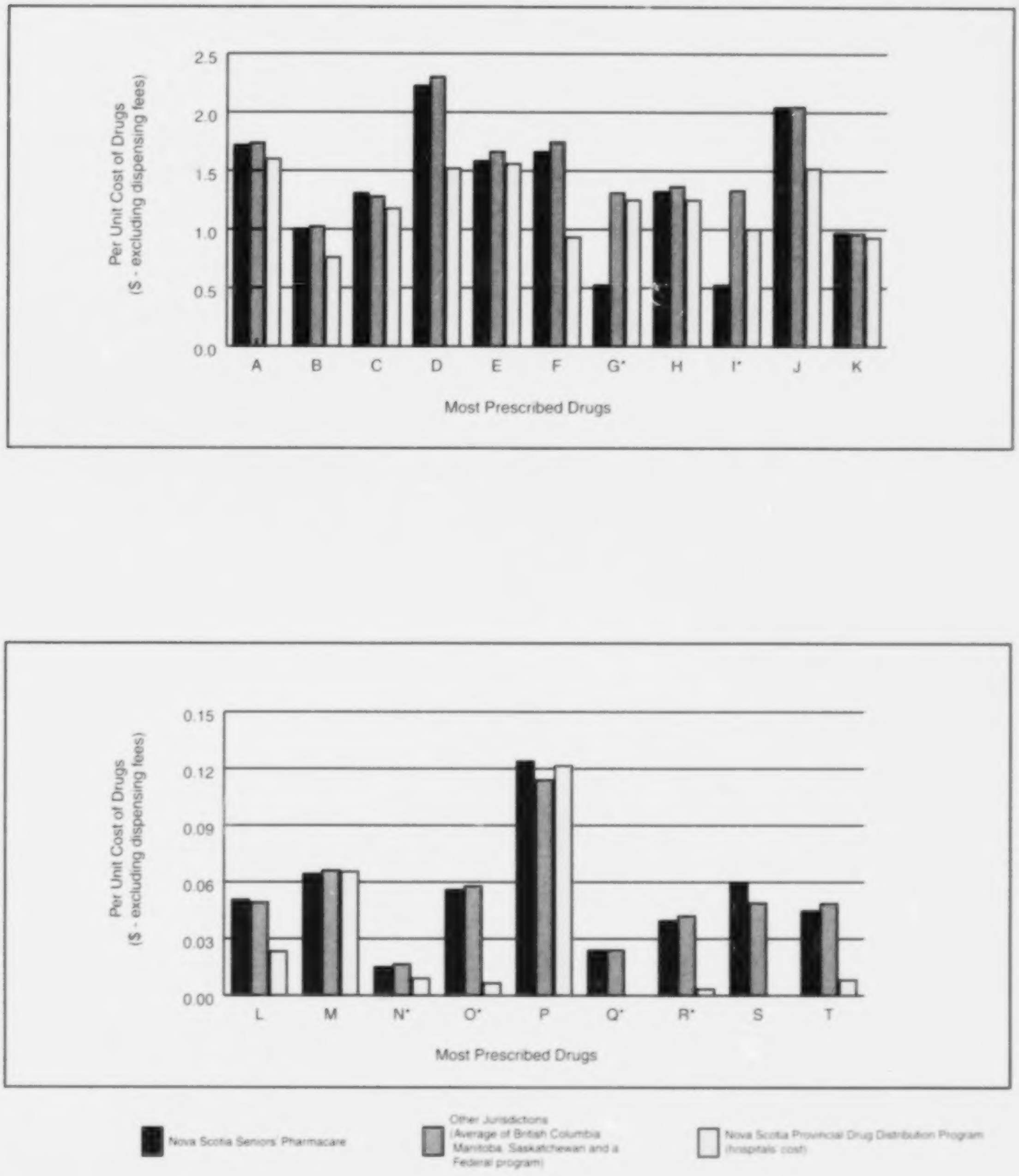
Practice and people-related (health care providers and consumers)

- Changes in prescribing and dispensing practices
- Number and mix of prescribers (specialists, general practitioners, nurse practitioners and others)
- Multiple doctoring
- Consumers' expectations and behaviours
- Wastage

Note: Information in this exhibit was obtained from *Development of Drug Utilization Indicators: A Feasibility Study Using Aggregation Administrative Databases* published by the Canadian Institute for Health Information, 2002.

Comparison of Drug Costs for 20 Most Prescribed Drugs in Canada

Exhibit 7.10



*These drugs have a maximum allowable cost in Nova Scotia which is not based on the pharmacies' actual acquisition cost (see paragraph 7.49).

Exhibit 7.11 **Audit Criteria**

Program Management

- The objectives of the program should encompass the entire program mission. They should be well defined, measurable and periodically reviewed.
- Adequate performance information should be available to measure whether program's mission statement and objectives are being achieved.
- The selection process, for the third party service provider, should provide due regard for economy and efficiency, and compliance with government's procurement policies and procedures.
- An adequate responsibility framework needs to be put in place with the third party service provider in order to evaluate the effectiveness of its services.
- The organization should regularly monitor and evaluate the performance of the third party service provider.
- The organization should have adequate standards to monitor and evaluate the program's performance.
- There should be regular evaluation of key aspects of the program's performance and corrective action taken when necessary.
- Adequate procedures should be in place to ensure compliance with legislation and policies and to take corrective action when necessary.

Drug Selection and Cost

- Drugs that are listed on the formulary should be properly assessed to ensure they are cost effective.
- Drugs listed should be regularly evaluated to determine whether they should be retained, deleted or restricted in their use, and corrective action taken when necessary.
- Drugs under assessment that have the potential for significant cost savings or avoidance should be fast tracked for inclusion on the list.
- There should be policies and processes in place to ensure that listed drugs and pharmacy services are acquired at the lowest possible cost (including use of competitive processes, generic drugs, and volume discounts).
- Commercial marketing practices should be followed up to see if they have an impact on the drug/pharmacare program and strategies.
- Prices of drugs should be followed up and analyzed and, if necessary, audited.

Drug Use

- Prescribing practices should be monitored to assess and, to the extent practical, determine whether they are appropriate and economical.
- Procedures should be in place to encourage improved physician prescribing practices.

- Procedures should be in place to monitor and analyze drug use, and take corrective action where necessary.

Eligibility and Payment by Insured Persons

- Program terms and conditions and eligibility requirements should be clearly communicated.
- Adequate processes should be in place to ensure a recipient's eligibility at registration and during the covered period.
- Adequate procedures should be in place to ensure that payments are made by the recipients in accordance with the terms of plan eligibility.

Claims Submitted by Pharmacies

- Procedures should be in place to verify the validity of claims submitted and to ensure that related payments are accurately and consistently processed on a timely basis.
- There should be appropriate computer environment and application controls to provide for completeness, accuracy, and authorization of data processed and appropriate contingency planning.
- The organization should have reasonable assurance that the pharmacy payment system processes only valid claims accurately, consistently and on a timely basis and that the amounts paid to pharmacies comply with the policies and legislation.
- System deficiencies should be identified and corrected on a timely basis.
- Adequate procedures should be in place to identify and prioritize pharmacies for audits.
- Audits should be consistently conducted and, where applicable, recoveries should be made on a timely basis.

Reporting to the Legislature

- The reported information should

    - focus on the essential aspects of performance
    - make mention of the future and also the past
    - explain key risks
    - explain the main considerations regarding capacity
    - explain any other essential factors related to performance
    - integrate financial information with non-financial information
    - present comparative information
    - present credible information fairly interpreted
    - disclose the basis for reporting.

- The reported information should be presented to the legislature in the prescribed timeframe.

8 REVENUES AND RECOVERIES

BACKGROUND

8.1 Health care costs in Nova Scotia are the Provincial government's largest program expenditure. Medically necessary services provided to residents of Nova Scotia are insured under the Health Services and Insurance Act. Uninsured services are billed to the patient or third parties and, as such, generate revenue for the District Health Authorities (DHAs). Insured outpatient services to non-Nova Scotia residents are billed to the respective jurisdictions and provide revenue for the DHAs. Insured inpatient services provided to non-residents of Nova Scotia are billed to the respective Canadian jurisdictions and generate revenue for the Department of Health (DOH).

8.2 Revenues related to services that are uninsured or provided to non-residents should be sufficient to cover the costs. When fees are insufficient, these services are, in effect, subsidized at the expense of insured services.

8.3 The Revenue/Recovery Section within the Corporate Services Branch of DOH is responsible for the following recoveries and payments which are summarized in Exhibit 8.1:

- recovering the cost of hospital services provided to residents of other provinces from the province of residence according to Section 17 of the Health Services and Insurance Act (approximately $30.8 million for fiscal 2003-04);
- recovering hospital and medical costs when such costs are the result of a wrongful act or omission of another (third party liability claims) according to Section 18 of the Health Services and Insurance Act (motor vehicle levy of approximately $14 million and non motor vehicle claims of approximately $0.1 million for fiscal 2003-04); and
- payments to other jurisdictions when residents of Nova Scotia receive medical services within those jurisdictions (approximately $21 million for fiscal 2003-04).

8.4 The fees to be charged for hospital services provided to Canadian residents of other provinces are governed by interprovincial agreements.

8.5 The accounting for revenues varies depending on whether an inpatient or outpatient service was provided and whether the person is a resident of another Canadian province. Recoveries for inpatient hospital services provided to residents of other Canadian jurisdictions are recorded as recoveries of the DOH. All outpatient revenues are recorded by the District Health Authorities (DHAs) along with inpatient revenues from residents of other countries.

8.6 Each of the District Health Authorities (DHAs) records revenues from sources including:

- non-Canadian residents;
- uninsured (not medically necessary) services;
- services provided to individuals who are not insured through MSI (groups such as RCMP, Veterans, Armed Forces);
- preferred accommodation (semi-private/private rooms);
- long-term care per diem billings;
- Federal Government and Workers' Compensation Board for patients insured under those programs; and
- laboratory (e.g., water testing) and other support services.

8.7 Our audit excluded recoveries from services sold by one DHA to other DHAs (e.g. lab services). Exhibit 8.5 reflects revenue received by DHA by source as reported on the respective 2003-04 audited financial statements. It does not include revenues from the Provincial government. The total non-provincial government revenues recorded by the DHAs for 2003-04 amounted to $132.8 million.

8.8 We last conducted a broad scope audit of Health Revenue and Recoveries in 1995 (see chapter 12 of 1995 Report of the Auditor General). In 2000, we performed a government-wide audit of user fees which included a section relating to revenues/ recoveries at DOH (see chapter 3 of 2000 Report of the Auditor General).

RESULTS IN BRIEF

8.9 The following are the principal observations from this audit.

- Neither the Department nor the DHAs have *case costing* information to assess whether revenues and recoveries are adequate to cover the cost of services delivered.

- Due to delays in receipt of information from the DHAs and IWK, the Department has not been able to issue invoices to other provinces on a timely basis. The Department receives payments within a reasonable timeframe once billing to the other jurisdictions is completed. The Department also needs to ensure that it has proper documentation in the form of non-resident declaration forms to support all out-of-province billings in the event that the patient's eligibility for coverage is challenged by the paying province.

- Currently not all costs are included in the motor vehicle levy calculation. The Department of Health needs to develop a process to recover costs of the Insured Prescription Drug Program and inter-hospital ambulance transfers from third parties either through the levy or in some other way.

- The DHAs show accounts receivable of $42 million as at March 31, 2004. Of this amount, 37% had been outstanding for more than 90 days. This indicates a need for more focus on collection of accounts receivable.

- Our audit revealed significant variations in DHA billing rates. The Department should review DHA revenues and recovery rates for consistency across the system.

- There is inconsistency in recording and reporting of revenues and recoveries across the system. Revenues are sometimes netted against expenses rather than being specifically identified as revenues. The Department of Health is aware of the problem and has recently begun discussions with the DHAs with the objective of increasing consistency.

AUDIT SCOPE

8.10 The objectives of our audit at the Department of Health were to:

- determine whether the DOH has adequate systems and controls to provide for timely collection of revenues and recoveries relating to provision of insured services to non-residents and claims related to third party liability;
- determine whether the DOH is receiving sufficient information to assess whether revenues and recoveries are adequate to cover the cost of the services delivered;
- determine whether the DOH has adequate systems and controls to ensure that payments to other jurisdictions for insured medical services provided to Nova Scotia residents comply with legislation and policies; and
- follow up on findings from previous audits (1995 Revenue and Recoveries audit and 2000 User Fees audit)

8.11 In addition, we had several objectives related to District Health Authorities. The objectives of that section of the audit were to:

- determine whether the DOH has adequate policies and systems to monitor the fees charged by District Health Authorities for uninsured services and services provided to residents of other countries;
- determine whether the fees charged by DHAs for uninsured services and services provided to residents of other countries are reasonably consistent and compare the total amounts recorded by each DHA;
- determine the DHAs' policies for collection of accounts receivable relating to revenues and recoveries; and
- determine the policies which govern DHAs' accounting for revenue and recoveries and whether these amounts are recorded consistently on the DHAs' audited financial statements.

8.12 Our audit criteria were obtained from recognized sources including the Canadian Institute of Chartered Accountants' *Professional Engagement Manual*, various sections of the Health Services and Insurance Act, the Canada Health Act and the 2003 Nova Scotia Financial Measures Act.

8.13 Detailed on-site fieldwork was conducted through the summer of 2004. Fieldwork included detailed transaction testing, examination of policies and procedures, detailed review of systems descriptions, review of reports and other documents deemed to be relevant, and discussions with management and staff.

8.14 We also sent a written survey to each of the DHAs and the IWK to obtain information on a Province-wide basis related to accounts receivable and credit management policies, billing rates and policies, and any studies which compared costs of service delivery with the billing rates charged. In addition, we completed detailed audit work at the Capital District Health Authority as part of an audit reported on in chapter 6 of this Report. Testing of billing and credit management practices at the CDHA was performed to gain a more informed understanding of the processes in these areas.

PRINCIPAL FINDINGS

Recoveries from Other Provinces - Department of Health

8.15 Background and overall conclusion - Documentation and information supporting non-resident inpatient billings is forwarded from the various Provincial hospitals to the Revenue/Recovery Section at DOH. Staff review these billings for appropriate documentation and use of correct billing rates according to interprovincial agreements prior to delivering the billings to provincial counterparts across Canada. For calendar year 2003, approximately 5,200 non-resident inpatient billing transactions totaling $31.5 million were processed by the Section. Provincial practice is to bill the other jurisdiction within 30 days from receipt of information from the hospital. According to the interprovincial agreement the recipient jurisdictions have 30 days to approve and reimburse the billing jurisdiction.

8.16 Our audit of recoveries at the DOH consisted of a review of the key internal controls in the billing and collections systems and compliance with legislation, agreements and policies for Non-Resident In-Patient (NRIP) services. Sixty billing transactions were selected from 2003 calandar year data for testing of compliance, accuracy, validity, completeness, timeliness and authorization.

8.17 We concluded that the timeliness of billing to other jurisdictions needs to be improved. The target times for issues of billings is being exceeded. The Department receives payment on a timely basis once billing to the other jurisdictions is completed. The Department also needs to ensure that it has proper documentation in the form of non-resident declaration forms to support all out-of province billings in case the patient's eligibility for coverage is challenged by the paying province.

8.18 Timeliness - Our testing identified problems with the timeliness of billing other jurisdictions for services provided to non-residents of Nova Scotia. The Provincial practice is to invoice other jurisdictions within 30 days following receipt of information from the hospital. For the sample transactions tested, the average time between discharge and billing was 133 days. The delay occurred as a result of the DHAs not submitting the billings to DOH on a timely basis. Once DOH receives the information, billings are forwarded to the other provinces in a timely fashion. Payments are required to be made within 30 days of billing. Our testing revealed that other provinces pay promptly, averaging 39 days from invoice date to receipt of payment.

8.19 We were informed by management that billing delays at the DHAs were complicated by problems in obtaining computer software updates during 2003. A decision was made at the national level to include expiry dates on health cards, as well as diagnostic and procedure codes on invoices. This required changes to the hospital and Department software which added complications. Initial deadlines for completion of software changes had to be extended by management and have recently been achieved. The backlog of incomplete billings at the hospital level is being reduced and billing is becoming more current, but not yet within the 30 days of discharge date policy.

8.20 The current billing cycle impacts negatively on the Province's cash flow. The policies have been designed to minimize the negative effects on cash flow and we encourage the Department to require the DHAs to comply with its policy of submitting billing information to DOH within 30 days of discharge.

Recommendation 8.1

We recommend that the DOH Revenue/Recovery Section require billings from the DHAs and IWK to be submitted to DOH within 30 days of discharge.

8.21 Documentation - The Inter-Provincial Agreement indicates that non-resident declaration forms are necessary so that Nova Scotia is not responsible for payment of the service if the home province refuses to accept responsibility. These forms indicate whether the non-resident patient is eligible for medical coverage in the respective province of residence. Our testing identified weaknesses in the hospitals' submission of non-resident patient declarations to the Department of Health. If challenged by other provinces, the Department of Health will request documentation from the hospital if it is not already on file. Without this form, there is a risk that revenue might be uncollectible. Our testing revealed that non-resident patient declarations were not received from the hospitals in 7 of the 60 sample items examined.

Recommendation 8.2

We recommend that the DOH Revenue/Recovery Section ensure that all non-resident patient declaration forms are obtained from hospitals at the time billing data is submitted to the Department.

8.22 Adjustments to interprovincial billings - Our testing of recoveries also included examination of a sample of adjustment transactions to determine whether adjustments were properly approved, granted in a timely manner, and granted for valid reasons based on adjustment reason codes. Our conclusion was positive; adjustments were undergoing a verification and authorization process in a timely manner.

Payments to Other Provinces - Department of Health

8.23 Background and overall conclusion - Documentation and information supporting hospital services provided to Nova Scotia residents in other Canadian jurisdictions is forwarded from other jurisdictions to the Revenue/Recovery Section at DOH. Staff review these billings for correct billing rates based on interprovincial agreements and verify Nova Scotia medical insurance coverage prior to payment. For calendar year 2003, there were approximately 2,700 out-of-province claims for inpatients ($18.5 million) and 30,300 claims ($3.9 million) for outpatients. According to interprovincial agreements, recipient jurisdictions have 30 days to approve the claims and reimburse the billing jurisdiction.

8.24 We concluded that the payments to other jurisdictions are occurring on a timely basis. Most other jurisdictions have encountered problems similar to Nova Scotia with respect to being able to provide invoices on a timely basis.

8.25 Computer system - Out-of-province outpatient claims are entered manually by staff into the mainframe computer system. Currently management is developing, in cooperation with New Brunswick, a process for exchange of electronic files to eliminate the time-consuming task of rekeying the data. We support this initiative and encourage extension of the initiative to all jurisdictions.

Recommendation 8.3

We recommend the Department of Health implement necessary changes to enable electronic exchange of reciprocal billing information with all jurisdictions.

8.26 Results of testing - Our examination of payments made to other jurisdictions for Nova Scotia residents receiving health services outside the Province focused on compliance with legislation, policies and key internal controls. A sample of 60 inpatient transactions and 60 outpatient transactions was selected to test for compliance, accuracy, validity, completeness, timeliness and authorization.

8.27 Results from our examination indicated that payment transactions comply with relevant legislation and policies and that key internal controls are functioning. Testing revealed that 25 of the 60 out-of-province inpatient items tested exceeded 100 days from discharge to invoice date. Payments are occurring on a timely basis. Of the 60 items examined, only 11 exceeded 10 days between the statement and payment date and no items exceeded 30 days.

8.28 Adjustments to interprovincial billings received - A review of two separate adjustments to out-of-province inpatient and outpatient transactions was also conducted to determine whether the Revenue/Recovery Section adhered to the standard request for adjustment process. Our testing revealed that standard processes were being followed, denied adjustments were followed up, and reasons provided for approval or denial of adjustments were adequate.

Are Fees Adequate to Cover Costs of Services?

8.29 Background and overall conclusion - The objective of this phase of the audit was to determine whether DOH is receiving sufficient information to assess whether revenues and recoveries are adequate to cover the cost of services delivered. Our examination involved discussions with management to determine whether:

- the rationale for the recovery rates selected was documented;
- a cost analysis was being completed periodically; and
- the full cost of each service provided could be determined.

8.30 Our examination revealed that the interprovincial billing rates for outpatient and high cost procedures are set nationally and that there is no documented rationale for the recovery rates selected. The Nova Scotia Department of Health has not determined the full cost of each service provided, and no cost analysis has been completed to ensure that recoveries are sufficient to cover the costs of providing these services. Nova Scotia does not have *case costing* systems to facilitate provision of cost information for services provided.

8.31 Inpatient rates - Inpatient services for most procedures are billed using the hospital's average per diem rate. As part of our examination of costs we reviewed the per diem rate schedule for Nova Scotia hospitals to insure that rates being used were approved rates for the service period. For fiscal 2003-04, these rates at the regional hospital level varied across the Province from a low of $650 to a high of $1,000, and $1,465 at the IWK. The per diem rates for Nova Scotia hospitals approved for 2003-04 were supplied by the Canadian Institute for Health Information (CIHI) and reviewed by the Inter-Provincial Working Group

Committee operating under the reciprocal billing agreement. These rates are adjusted annually for hospitals which submit cost data to CIHI.

8.32 High cost procedures - Rates for certain, specified high cost procedures are set nationally by an Inter-Provincial Working Group Committee. All provinces are expected to participate in reviewing these rates. Examples of high cost procedure rates are as follows:

- Heart transplant - $75,220
- Kidney transplant - $19,500

8.33 Prior to the most recent update on April 1, 2004, rates had remained constant since September 1, 1998. The recent update resulted in no change to the charge rate for high cost procedures.

8.34 Outpatient rates - Similarly, outpatient rates are also set nationally through the Inter-Provincial Working Group Committee. These rates were updated in April 2004. Prior rates had been established in September 1998. In these cases, generally the charge rate has increased. Management informed us that many jurisdictions, including Nova Scotia, were not capable of providing the costing data on outpatient services. As a result, the Working Group had to rely solely on information provided by Alberta, Ontario and British Columbia. Management indicated that Nova Scotia has no plans to start collecting this data in the future.

8.35 Management noted that the Inter-Provincial Working Committee is currently reviewing the various rates used for billing inpatients and outpatients. CIHI cost information, as supplied by the various jurisdictions, is being used to review the adequacy of recoveries versus costs. The process is in its initial stages and more work remains to be done before completion.

Recommendation 8.4

We recommend that the Department of Health work towards accumulating the necessary cost information to assess whether fees are adequate to cover the cost of services delivered.

Third Party Liability - Health Costs Related to Motor Vehicle Accidents

8.36 Background and overall conclusion - In 1992, amendments were made to the Health Services and Insurance Act to allow the Department of Health to recover an equitable amount of health care costs related to motor vehicle accidents through an annual levy on the insured vehicles in the Province. Financial and statistical models were developed by an independent actuarial firm engaged to calculate the levy amount. Actuarial reports were prepared in 1994 and 2001. Currently, the Superintendent of Insurance, through the Department of Environment and Labour, is responsible for the actual administration and collection of the $14 million from insurance companies based on the number of vehicles insured. The current levy amounts to $25.89 per insured vehicle. The Superintendent's Office provides levy information reports and payments to DOH.

8.37 Our overall conclusion is that improvements can be made in the areas of verification of revenue to be collected and collection of levy receivables from the insurance companies. Additionally, the Department is not recovering all health care costs related to motor vehicle accidents.

8.38 Costs excluded from the levy - The Actuarial Report identified certain services which are not included in the calculation of the levy (e.g., Insured Prescription Drug Program and inter-hospital ambulance transfers) and data that may not reflect the true service cost (e.g., long-term care and other future costs). There is no requirement in the legislation for periodic review of the components of the levy.

Recommendation 8.5

We recommend that the Department of Health develop a process to recover costs currently excluded from the motor vehicle levy from third parties.

8.39 Billing of the motor vehicle levy - Our examination of the billing process revealed that the Superintendent of Insurance invoices the insurance companies on a quarterly basis and payment is expected within 60 days of the billing date. Furthermore, in a sample of 8 transactions tested, all but one of the items tested exceeded the allowable 60 day payment terms.

Recommendation 8.6

We recommend more stringent credit monitoring to ensure collection of the motor vehicle levy from the insurance companies within the 60 day policy, including consideration of charging interest on overdue amounts.

8.40 Verifying the number of vehicles - Our examination of the levy also revealed that the Superintendent of Insurance places full reliance on the Insurance Bureau of Canada (IBC) to calculate the number of vehicles used in levy calculations. There is no attempt to reconcile the number of vehicles registered with the Nova Scotia Registry of Motor Vehicles to the numbers reported by the IBC. Reconciling these independent data sources would provide assurance of the completeness and accuracy of the data provided by the insurance industry through the IBC. Because this information is used for invoicing, it is important that it be accurate.

Recommendation 8.7

We recommend that the Superintendent of Insurance develop a process for reconciling the number of vehicles reported by the IBC to the number of vehicles registered with the Nova Scotia Registry of Motor Vehicles to ensure motor vehicle levy invoices are based on accurate information.

Third Party Liability - Health Costs Related to Non-Motor Vehicle Accidents

8.41 In addition to third party liability recoveries through the motor vehicle levy, recent changes have also been made to the non-motor vehicle third party liability claims process. The recent change requires the injured party or their solicitor to file documentation with the Department. The purpose is to inform the Department of the nature and amount of the claim being filed against a third party, to include the Department's costs in the claim and to provide an affidavit outlining the settlement of the claim. This change was introduced through legislation to ensure that the Province was made aware of injury claims filed and would receive its appropriate share of all personal injury claims settlements. We did not complete any testing in this area due to the very small dollar amount over the past two fiscal years ($162,00 for 2002-03 and $91,000 for 2003-04).

Are DHAs' Fees Adequate to Cover Costs of Services?

8.42 Background and overall conclusion - The DHAs and IWK earn revenues from hospital services provided to out-of-country residents, uninsured (not medically necessary) services, and services provided to individuals not insured through MSI such as RCMP, Veterans, and Armed Forces. Revenue is also provided from the following items which are billed to users: preferred accommodation (semi-private/private rooms); long-term care per diem billings; laboratory and support services and other items. Exhibit 8.5, taken from the 2003-04 audited financial statements of the various DHAs and IWK, provides the dollar amounts involved.

8.43 We concluded that the rates charged by the DHAs are not consistent across the Province. Further, there has been minimal analysis of whether the fees charged are adequate to cover the costs.

8.44 Monitoring by DOH - In recent years, DOH has undergone structural changes as a result of changes to legislation. Each DHA is a separate entity with its own board and is responsible to operate at a break-even. DOH management indicated that the Department does not view its role as setting or monitoring rates charged by DHAs for uninsured services, rather the Department believes that DHAs should ensure the rates in use are sufficient to cover costs.

8.45 As a result of DOH's policy of allowing DHAs to set rates, there is a wide variation in the rates charged. We requested billing policies and rates for uninsured services and the results are included in Exhibit 8.3. The fees charged for the items selected are not consistent among the DHAs. The following are examples of these inconsistencies.

- outpatient day surgery for non-insured Nova Scotia residents or residents of other provinces - $252 to $505 (depending on the location)
- outpatient day surgery for non-Canadian residents - $505 to $1,010
- inpatient rates for non-insured Nova Scotia residents - $412 to $1,173
- inpatient rates for residents of other provinces - $412 to $1,700
- inpatient rates for non-Canadian residents - $1,500 to $3,200

8.46 We believe that there should be consistency in the rates charged by the various DHAs for these services.

8.47 DHA policies - All DHAs have formal policies related to fees charged for uninsured services, services provided to uninsured residents of Nova Scotia and services provided to residents of other countries.

8.48 Adequacy of fees - We surveyed the various DHAs and IWK to ascertain whether any cost studies had been completed to determine if the fees charged were adequate in relation to cost of services provided. The responses were basically that none had been completed. South West Nova (DHA 2) had completed an assessment in 2002 because this topic had been raised at a regular monthly meeting of the Chief Executive Officers (CEOs) of the DHAs and IWK. The review was applicable to a limited number of services and did not include full costing. The result was shared among the CEOs, however, no further work has been completed. CDHA management indicated that it had completed reviews of fees charged by similar-size health organizations across Canada and noted CDHA fees are in the high end of the range of fees charged by those organizations.

8.49 It is important to note that the systems which accumulate cost information at the DHAs do not collect sufficient, appropriate information on the cost of individual services provided to permit DOH and the DHAs to assess adequacy of fees. The financial systems do not incorporate *case costing* and cannot accumulate costs on a case-by-case or procedure-by-procedure basis.

Recommendation 8.8

We recommend that the Department of Health review the rates charged by DHAs for the most common uninsured services and establish common rates which recover the costs of services provided.

Credit Management at DHAs

8.50 Background and overall conclusion - We surveyed the various DHAs and the IWK to obtain aged accounts receivable summaries at March 31, 2004 along with the credit management policies for the applicable organization.

8.51 According to the data provided, total accounts receivable as at March 31, 2004 amounted to $42 million. Approximately $15 million (37%) of these accounts receivable have been outstanding more than 90 days, $11 million or 73% of the $15 million is over 120 days. Exhibit 8.2 provides a more detailed analysis of the accounts receivable as reported. The large amount of overdue receivables indicates a need for more attention to the area of collections.

8.52 CDHA indicated that the majority of the overdue accounts are low risk and will eventually be collected from entities such as the Federal Government, reciprocal billings to other provinces and the Workers' Compensation Board. High risk overdue accounts include amounts due from non-Canadians and preferred accommodation and, in CDHA's case, 70% of those amounts are due from insurance companies. Slow collection is a problem for the DHAs and the ability to decrease the amount of overdue accounts will depend upon cooperation from the paying organizations.

8.53 Policies - All organizations have formal policies related to credit management with the exception of the IWK and the Cape Breton District Health Authority (DHA 8). The policies assign responsibility and define procedures for regular monitoring, including completion of monthly aged accounts receivable listings, criteria for past due account and payment demand correspondence, and criteria for follow-up by phone and placement with collection agencies. Bad debt write-off criteria and required approvals are also defined.

8.54 There is no requirement in the DHAs' or IWK policies for charging interest on overdue accounts. Delays in collection of accounts causes a slow down in cash flow and reduces cash balances which results in loss of earned interest on bank balances. Maximizing collections could contribute funds available for patient care.

Recommendation 8.9

We recommend that all DHAs have formal credit management policies and that the policies be complied with.

We also recommend that the DHAs make significant efforts to increase the timeliness of accounts receivable collection.

Accounting and Financial Statement Presentation

8.55 Overall conclusion - We concluded that there is inconsistency in recording and reporting of revenues and recoveries across the system. Certain DHAs follow the MIS Guidelines of the Canadian Institute for Health Information (CIHI) in this area while others do not. Revenues are sometimes netted against expenses rather than being specifically identified as revenues. The Department of Health is aware of the problem and has recently begun discussions with the DHAs with the objective of increasing consistency.

8.56 CIHI MIS Guidelines - DOH has instructed the DHAs to apply the CIHI MIS Guidelines for recording revenues and financial statement disclosure.

8.57 These guidelines require specific coding and grouping of accounts in the completion of the DHA financial statements. This facilitates comparison of data by CIHI in production of various hospital reports. When DOH implemented the national MIS Guidelines and the MIS information project, each DHA was required to re-map the coding of revenues and recoveries in the financial systems to conform.

8.58 Inconsistencies identified - DOH staff reconciles the MIS information with the audited financial statements on an annual basis. This process has identified inconsistencies in recording of revenues across the system. Certain DHAs follow the MIS Guidelines while others have netted or offset revenues and recoveries against expenses.

8.59 As shown in Exhibit 8.5, which is composed of data from the audited financial statements of the DHAs and IWK, there is inconsistency in the reporting of revenues in the financial statements of those entities. DOH and the DHAs/IWK have recently started discussions on how to resolve these inconsistencies and the need for standardized reporting.

Recommendation 8.10

We recommend that the Department continue with its efforts to achieve conformity with the MIS Guidelines in recording and standardized reporting of revenues and recoveries across the DHAs.

8.60 Follow up from prior audits - We followed up on the recommendations from our 1995 Report on Revenue and Recoveries and from our 2000 government-wide audit of User Fees for uninsured services. We discussed the status of the recommendations with management and reviewed relevant documentation. Exhibit 8.4 provides the detail on recommendations and the status of implementation.

CONCLUDING REMARKS

8.61 Overall, the Revenue/Recovery Section appears to have appropriate systems and controls in place and is in compliance with legislation and policies relative to billing and payment of hospital services. DOH, the DHAs and the IWK Health Centre need to work together to increase the efficiency of the billing process to ensure that the bills to other jurisdictions and third parties are issued on a timely basis.

8.62 Currently, it is impossible to determine whether the revenues related to most uninsured services or services delivered to uninsured residents are sufficient to cover associated costs. The systems which accumulate cost information at DOH and the DHAs do not collect sufficient, appropriate information on the cost of individual services provided to permit DOH and the DHAs to assess adequacy of fees. DOH and the DHAs should work towards collecting cost information to be used in assessing the adequacy of fees charged and develop more consistent rates for services across the health system.

8.63 The level of overdue accounts receivable requires much more attention by the DHAs. More stringent collection policies and development of target guidelines should be considered by the DHAs and IWK.

Exhibit 8.1

Reciprocal Billings and Third Party Recoveries - 2003-04

Program Recoveries	Amount ($ thousands)
Out-of-Province Recoveries	$ 30,802
Third Party Liability Recovery	$ 13,979
Out-of-Province Hospital Payments	$ (21,303)
Total	**$ 23,478**

Exhibit 8.2

District Health Authorites - Aged Accounts Receivable as at March 31, 2004

	Total	Current	Over 30 days	Over 60 days	Over 90 days
			($ thousands)		
Capital	$ 22,047 100.0%	$ 13,067 59.3%	$ 2,406 10.9%	$ 944 4.3%	$ 5,630 25.5%
Cape Breton	$ 10,028 100.0%	$ 2,226 22.2%	$ 283 2.8%	$ 1,345 13.4%	$ 6,174 61.6%
IWK	$ 3,125 100.0%	$ 2,385 76.3%	$ 231 7.4%	$ 80 2.6%	$ 429 13.7%
Other	$ 7,098 100.0%	$ 2,909 41.0%	$ 776 10.9%	$ 203 2.9%	$ 3,210 45.2%
Total	**$ 42,298** **100.0%**	**$ 20,587** **48.7%**	**$ 3,696** **8.7%**	**$ 2,572** **6.1%**	**$ 15,443** **36.5%**

District Health Authorites - Summary of Fees Charged for Selected Medical Services

Exhibit 8.3

	Nova Scotia Resident - Not Insured		Other Province Resident - Not Insured		Non-Canadian	
	High $	Low $	High $	Low $	High $	Low $
Emergency/outpatient visit	140	50	140	50	363	110
In-patient - one night stay at a regional hospital	1,173	412	1,700	412	3,200	1,500
Out-patient - Day Surgery - basic	505	252	715	252	1,010	505
Cosmetic Surgery ("In-patient")	700	412	1,700	412	1,815	1,700
Cosmetic Surgery ("Out-patient")	400	252	715	252	715	505
Diagnostic - Radiology Procedure						
Chest, single view	140	18	140	18	280	48
CT Head, combined	1,188	252	1,386	252	1,452	504
Laboratory procedure						
Water test (routine)	20	13	20	13	20	20

Exhibit 8.4

Status of Recommendations from 1995 Audit - Health Revenue and Recoveries

Ref	Recommendation	Status
12.16	Timeliness of payment from other jurisdictions needs improvement. Timeliness of billings to other jurisdictions needs improvement.	Payments from other jurisdictions are generally within the 30 day terms of the Inter-Provincial Agreements. Billings from the Department are with the 30 day policy once the information is received from the DHAs and the IWK.
12.23	The Department may open a file then close it soon after because the amount to be recovered is minimal or the injured party is not filing a claim. We recommend these claims be pursued if the potential benefit exceeds the estimated cost to the Province of pursuing the claims.	Changes have been made, legislation now requires the injured party or their solicitor to file documentation with the Department informing them of the nature and amount of the claim, to include the Department's costs in the claim and provide an affidavit outlining the settlement of the claim.
12.24	For opened claims, the Department determines the in-patient hospital and professional service costs incurred in treating the injured party and submits this on a Statement of Claim to the liable party's insurer. The Department does not recover the costs of amounts under the Insured Prescription Drug Plan or ambulance services although these are allowable under the Act. These costs are not pursued because there is no adequate reporting system. We recommended that all allowable costs under the Act be pursued. We also recommended improvements in internal control procedures relating to the calculation of claimed amounts.	Ambulance costs are now included in the levy calculation.
12.29	The Department is planning to develop a system to track actual costs incurred as a result of motor vehicle accidents which will eliminate reliance on estimating and projecting cost data. We urge the Department to proceed with development of this system because information on actual costs is necessary to evaluate the adequacy of the levy.	Recommendation not acted upon

Status of Recommendations from 2000 Audit - Health User Fees

Ref	Recommendation	Response
3.47	The Department does not monitor the practices which organizations use to establish, levy and collect user fees. During the annual budget review process, the Department monitors the reasonableness of anticipated user fee revenues, using 1995 revenues as a benchmark. We have recommended the Department take a more active role in ensuring that user fee policies and practices of health care facilities are reasonable, efficient and economic.	Recommendation not acted upon.

Exhibit 8.5

Summary of Revenue by DHA and IWK - Excluding Revenue from the Province of Nova Scotia ($ Millions)

As at March 31, 2004	District Health Authority (DHA)										
	Total	1	2	3	4	5	6	7	8	9	IWK
	$	$	$	$	$	$	$	$	$	$	$
Federal Government/Veterans Affairs Canada	17.0	2.1	1.4	2.0	0.5		1.7			9.3	
Patient (inpatient, outpatient and clinics)	25.2	1.6	1.2	2.1	1.2	1.1	1.1	1.9	13.6		1.4
Physician funding	4.5	2.5	2.0								
Program Recoveries	11.4	3.0	4.1	4.3							
Other/Miscellaneous	13.7	0.6	0.8	0.3		0.1	0.2	0.1	1.2	10.4	
Charges to MSI	16.2				3.3	1.6	2.7	2.8	5.8		
Rental income, recoveries and sales	6.6				0.3		0.3	0.1			5.9
Foundations and auxiliaries/Canadian Breast Cancer Foundation	0.3				0.1						0.2
Investment income	0.3				0.1	0.1	0.1				
Food services/Cafeteria income/Dietary recoveries	7.6				0.1	0.2		0.5	1.4	5.4	
Laboratory and support services	5.6				0.1		0.1			5.4	
Long-term care	1.2					1.2					
Laundry recoveries	0.2							0.2			
Preferred accommodations/Net differential	10.9								1.8	7.1	2.0
Non-resident billings	8.5									8.5	
Workers' Compensation Board	3.6									3.6	
	132.8	9.8	9.5	8.7	5.7	4.3	6.2	5.6	23.8	49.7	9.5

Legend - District Health Authority (DHA):

1	*- South Shore*	*6*	*- Pictou County*
2	*- South West Nova*	*7*	*- Guysborough Antigonish Strait*
3	*- Annapolis Valley*	*8*	*- Cape Breton*
4	*- Colchester East Hants*	*9*	*- Capital*
5	*- Cumberland*	*IWK*	*- IWK Health Centre*

9 MUNICIPAL SERVICES DIVISION

BACKGROUND

9.1 The Province of Nova Scotia is responsible for the legislative framework in which Nova Scotia municipalities operate. Provincial legislation includes the Assessment Act, Municipal Elections Act, Municipal Grants Act and Municipal Government Act. The Municipal Services Division of the Department of Service Nova Scotia and Municipal Relations (SNSMR) manages the Province's relationship with municipalities. The Division provides a wide range of service and support to 55 municipal governments, comprising 3 regional municipalities, 21 rural municipalities and 31 towns. It also provides services to 22 incorporated villages within the Province. The Division's net expenditure for 2003-04 was $43.9 million, comprised of $41.8 million for grants and $2.1 million for salaries and administrative expenses.

9.2 Municipal Services Division is responsible for providing advice to municipalities in the areas of financial administration and management, infrastructure and engineering, and land use planning. In addition, staff of the Division provide policy and program support on matters of Provincial-municipal interest, including environmental and resource planning concerns, and structural issues related to communities and local government in Nova Scotia.

9.3 The Municipal Services Division also administers a number of programs which provide funding to municipalities. These include equalization grants, grants-in-lieu of taxes, farmland grants, a Provincial capital assistance program, a community accessibility program, a community transportation assistance program and the Province's participation in the Canada-Nova Scotia Infrastructure Program.

9.4 In 2003-04 municipal grants totaled $68.1 million; $31.1 million for equalization grants, $8.2 million for grants-in-lieu of taxes for Provincial property, $24.5 million for infrastructure grants, and $4.3 million for various other grant programs. The costs of grants were reduced by $12.6 million received from Nova Scotia Power Inc. for payments to municipalities based on the equalization formula, and $13.7 million from the Federal government for the Canada-Nova Scotia Infrastructure Program. (Exhibit 9.1)

RESULTS IN BRIEF

9.5 The following are our principal observations from this audit.

- Municipal Services Division has appropriate control over municipal grants.
- The Division complies with Provincial legislation.

- The Division has appropriate systems to monitor municipal operations, to the extent required by Provincial legislation, but does not publish performance and statistical information for municipalities on a timely basis.
- Certain amounts paid to municipalities from funds received from Nova Scotia Power Inc. are recorded in the accounts of a government department other than Service Nova Scotia and Municipal Relations.

AUDIT SCOPE

9.6 In September 2004 we completed a broad scope audit of the Municipal Services Division of the Department of Service Nova Scotia and Municipal Relations. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included all tests and other procedures we considered necessary in the circumstances.

9.7 The objectives of this assignment were to review and assess Municipal Services Division's:

- control over municipal grants;
- compliance with Provincial legislation; and
- system for monitoring the operations of municipalities.

9.8 The Provincial government's participation in the Canada-Nova Scotia Infrastructure Program was not included in the scope of this audit as it was previously the subject of a joint audit of the Auditors General of Nova Scotia and Canada (see 1996 and 1999 Reports of the Auditor General).

9.9 Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by senior management of the Department.

PRINCIPAL FINDINGS

Municipal Grants

9.10 The Municipal Services Division administers several grant programs. Equalization grants and grants-in-lieu of taxes on Provincial property are legislated by the Municipal Grants Act. Non-legislated assistance programs include a Provincial capital assistance program, the Canada-Nova Scotia Infrastructure Program, as well as programs relating to inclusive transportation and accessibility for the disabled.

9.11 The net cost of municipal grants has declined significantly over the last decade. In 1993 grants and assistance totaled $60.5 million. In 2003-04 the net amount was $41.8 million (Exhibit 9.1). There have been general declines in some grants, and there are no longer debt servicing grants to municipalities. However, the most significant changes impacting municipal grants were the implementation of an infrastructure program, and legislative amendments which require Nova Scotia Power Inc. to make payments to the Province.

9.12 Nova Scotia Power Inc. (NSPI) was formerly a Provincial crown corporation, but when it was privatized in 1992 it was not subject to municipal taxes. Instead, it was required to make payments to municipalities in lieu of such taxes. However, the payments were generally regarded as being less than if the company was assessed taxes in the same manner as any other business.

9.13 The Financial Measures Act of 2002 repealed sections of the Nova Scotia Power Privatization Act. Beginning in 2002, the company was required to make payments to the Provincial government which are considered by government to be representative of the amounts NSPI would pay to municipalities if its property was assessed and taxed as any other business. The revision required NSPI to make payments to Service Nova Scotia and Municipal Relations in 2002-03 totaling $26.4 million. The payments required from NSPI increased to $31.0 million in 2003-04 (Exhibit 9.2). The Department is required to withhold $2.5 million to recover past payments to municipalities for their Harmonized Sales Tax (HST) costs, and distribute the remaining funds to municipalities, as determined by the Minister after consultation with the Union of Nova Scotia Municipalities.

9.14 Payments from NSPI to the Province are used to fund payments to municipalities based on the equalization formula and grants-in-lieu of taxes for NSPI property, as well as to offset HST costs borne by municipalities. However, of these amounts, only payments to municipalities based on the equalization formula (2003-04 $12.6 million) are recorded in the accounts of SNSMR. Similarly, only this portion of the payments received from NSPI is recorded in the Department's accounts as a recovery. Amounts paid to municipalities for grants-in-lieu of taxes on NSPI property (2003-04 $9.9 million) and HST Offsets (2003-04 $6.0 million), as well as the amounts received from NSPI to fund these payments, are not recorded in the Department's accounts. Rather, they are recorded in accounts of the Department of Finance. This is not consistent with the Financial Measures Act of 2002 which gives the Minister of SNSMR responsibility for the expenditure of the NSPI payments, and with the fact that SNSMR prepares the cheques to municipalities for the grants-in-lieu of taxes for NSPI property.

Recommendation 9.1

We recommend that the accounts of Service Nova Scotia and Municipal Relations include all expenditures and recoveries relating to grants to municipalities which are the responsibility of the Minister of SNSMR.

9.15 The largest Provincial grant program administered by the Municipal Services Division is the equalization grant. An unconditional operating grant to municipalities was introduced in 1980. In 1995, at the time of Provincial-Municipal Service Exchange, its name was changed to equalization grants. Equalization grants totaled $31.1 million for 2003-04. The Provincial grant portion totaled $18.5 million. Payments of $12.6 million were made based on the equalization formula using NSPI funding. (Exhibits 9.1 and 9.3) The grants are based on a formula which attempts to measure:

- municipal need - by developing standard expenditures per dwelling unit for certain municipal services for the various classes of municipalities; and
- the ability of municipalities to fund their need - by calculating a "uniform assessment" for each municipality, which is the total taxable assessment plus the capitalized value of grants-in-lieu of taxation from the Province.

However, equalization grants were capped for 2003-04. If the grants were based strictly on the equalization formula, they would have totaled $34 million.

9.16 The second largest legislated Provincial grant program is grants-in-lieu of taxes, which totaled $8.2 million (Exhibit 9.4) in 2003-04. Section 3 of the Municipal Grants Act provides for the payment of such grants on eligible Provincial property. The grants paid are equal to the full taxes that would be paid if the property was taxable. Certain property, such as health and some educational institutions, are exempted from the grant program, and others such as universities pay a reduced rate.

9.17 We reviewed the statutory authority and other requirements for the various municipal grant programs, as well as the Division's processes for approving and controlling grant payments. Our audit tests indicate that grants were made to eligible municipalities or other recipients in accordance with statutory authority. We also found that grants are appropriately calculated and approved. Municipal Services Division maintains a Grants and Program Manual which provides a detailed description of each grant program and outlines the approval process for each program. The manual is consistent with Provincial legislation.

9.18 We noted that Section 8(2) of the Municipal Grants Act states "*The total equalization grants payable to municipalities in each year shall be the amount determined by the Governor in Council.*" We reviewed to see whether such authorization had been obtained. We found that an Order in Council was not processed for the 2001-02 equalization grants, but Orders in Council for 2002-03 and 2003-04 grants were processed and approved by Executive Council.

9.19 We also noted that the Division does not have a system which can provide comprehensive reports on grant programs. We were informed that it would be very time consuming to determine the number and type of grants that were made to specific municipalities over a period of years. There is no single database for tracking all grant information. Staff would have to review each file and existing database for every municipality and tabulate the number and type of grants that were approved. We also understand that the Division relies on the 'corporate memory' of staff to ensure municipalities only receive funding for specific projects once over the life of a project. In discussing these concerns with management, we were told that the Division is working with consultants to create a comprehensive grant tracking and management system.

Monitoring Municipalities

9.20 Management of the Department explained to us that Provincial governments in Canada are generally recognizing municipalities as independent third levels of government, as opposed to entities under the control of provinces. Service Nova Scotia and Municipal Relations administers the Municipal Grants Act, Municipal Government Act and Assessment Act, as well as portions of the Nova Scotia Power Privatization Act. However, much of the legislation regarding municipalities is enabling, in that it authorizes the powers and responsibilities of municipalities. Section 2 of the Municipal Government Act notes the purpose of the Act is to give broad authority to municipal councils to manage their own operations, including authority to pass bylaws. The Act also notes municipal councils' right to govern municipalities within the jurisdiction provided by legislation. Municipalities are subject to annual reporting requirements, such as annual audited financial statements, and are generally accountable to their electorates.

9.21 We were informed that the Minister has relatively limited legislative authority to enforce municipal non-compliance with legislation, except for matters relating to municipal borrowing, financial guarantees, lease commitments and financial mismanagement. Municipalities are required to report certain information to Service Nova Scotia and Municipal Relations, but there is no legislative requirement for the Department to monitor municipalities. Municipalities are required to submit audited financial statements by July 31 and an annual operating budget by September 1 of each year. A capital budget must be submitted before the Minister will approve long-term borrowing by a municipality. As well, a general information return must be submitted to the Department annually, but there is no legislated deadline.

9.22 However, the Provincial government has specific authorities with respect to municipal land use. Municipalities are required to submit copies of approved municipal planning strategies, land use bylaws and subdivision bylaws to the Department. These are reviewed by Municipal Services Division for consistency with Provincial land-use plans. Once approved, they are returned to the municipality, which then will advertise that the bylaws have been adopted.

9.23 The Municipal Services Division's role is to work with municipalities to provide advice, assistance and program support to help municipalities make changes to improve viability. The Division has regular communication with municipalities about their status and challenges. The Division concentrates on areas of critical importance and works with municipalities to resolve problems. The Division reviews municipal performance indicators, statistics, financial statements and auditors' management letters. When required, special studies are conducted and, in extreme cases, the Minister has the authority to require additional information be provided by a municipality and to direct an audit or review of a municipality.

Performance Reporting

9.24 The Department prepares annual business plans and accountability reports which are available on its website. The Department reports on its performance, organized according to its various divisions. Reporting includes identification of specific outcomes and indicators of performance, and measurement of performance using the indicators and specific targets.

9.25 Municipal performance measures are in various stages of development across Canada. The Federation of Canadian Municipalities has published three reports on Quality of Life in Canadian Cities. British Columbia is in the initial stages of developing annual progress reporting. Quebec established over 120 performance indicators and will require municipalities to report on 19 of them in 2004. Ontario established a mandatory performance measurement program in 2000 which uses 40 performance measures in 10 service areas. Individual municipalities such as Calgary and Winnipeg have developed their own systems of performance measurement.

9.26 Service Nova Scotia and Municipal Relations began a project in 1999 to develop municipal performance indicators. Municipalities were involved with the project and a joint Provincial-municipal steering committee was established. Eight financial indicators were developed. After two studies in 2000 the project was expanded to include 41 indicators organized into four categories: financial (14), community (6), governance (5) and municipal performance (16). The indicators are used by the Department, municipalities and others to understand the challenges facing each municipality and to identify best practices, with the goal of improving municipal performance. The Department believes this information will encourage a more strategic approach to municipal policy development and management.

9.27 Municipal performance with respect to these indicators is reported on the Department's website. As of September 2004, municipal performance reporting was available for 2001-02 only. No performance reporting is available for any municipality for 2002-03 or later. We understand that slow response rates from municipalities and lack of Division staff time have prevented complete and timely reporting of municipal performance information.

Recommendation 9.2

We recommend the Department ensure reporting of municipal performance occurs on a timely basis.

9.28 The Department also publishes the *Annual Report of Municipal Statistics* and *Nova Scotia Supplementary Report of Municipal Statistics*. The documents contain a significant amount of financial and statistical information relating to all municipalities in Nova Scotia. The reports make it possible to compare statistics between Provincial municipal units, and also with municipalities in other provinces. The completeness and accuracy of this information is important because it is reported publicly, used in analysis performed by the Department's municipal advisors, and used by the various municipalities in managing their own operations.

9.29 However, the information is not being compiled and reported on a timely basis. As of September 2004, the most recent report was published in 2003 for information related to the year ended March 31, 2001. The reports are compiled primarily by one staff member and it is a major undertaking. Information submitted by municipalities often has to be reclassified to ensure information is reported consistently from one municipality to another. Not all municipalities report on a timely basis and some have to be reminded regularly to submit information to the Department. One outcome of delays in compiling municipal statistics is that the Department sometimes must resort to using older data in its analysis.

Recommendation 9.3

We recommend the Department apply sufficient resources and implement additional procedures, if necessary, to ensure municipal statistical reports are available on a timely basis.

CONCLUDING REMARKS

9.30 Based on our audit, we concluded that the Municipal Services Division of Service Nova Scotia and Municipal Relations has appropriate control over municipal grants, is in compliance with Provincial legislation, and has reasonable systems for monitoring the operations of municipalities, to the extent required by Provincial legislation.

9.31 We believe the reporting of municipal performance to be a significant accountability measure, and see value in the compilation and publication of municipal statistics. Accordingly, the Department needs to ensure reporting of municipal performance and statistics is current.

Exhibit 9.1

Municipal Services Division - Grants and Assistance

	1992-93	2002-03	2003-04
Provincial operating / equalization grants	$ 37,809,478	$ 21,250,000	$ 18,450,000
Payments based on equalization formula funded by NSPI payments	--	9,800,000	12,600,000
Total Relating to Municipal Equalization (Exhibit 9.3)	**37,809,478**	**31,050,000**	**31,050,000**
Debt servicing grant	7,421,055	--	--
Grants-in-lieu of taxes for Provincial property (Exhibit 9.4)	9,754,606	8,089,528	8,225,204
Provincial capital assistance	--	3,049,198	930,869
Other grants and assistance	5,480,211	3,963,992	3,407,951
Infrastructure program	--	22,397,031	24,483,307
Total Grants and Assistance	**60,465,350**	**68,549,749**	**68,097,331**
Recovery - NSPI payments allocated to fund payments based on equalization formula	--	9,800,000	12,600,000
Recovery - Federal government for Infrastructure program	--	13,656,986	13,719,698
Total Recoveries	**--**	**23,456,986**	**26,319,698**
NET GRANTS AND ASSISTANCE	**$ 60,465,350**	**$ 45,092,763**	**$ 41,777,633**

Note: Provincial-Municipal Service Exchange was implemented in 1995, resulting in changes to services provided by municipalities, as well as grants provided by the Province to municipalities to help fund such services.

Nova Scotia Power Inc. - Payments to Province of Nova Scotia

Exhibit 9.2

Application of NSPI Payments	2002-03	2003-04
To SNSMR to fund payments based on equalization formula	$ 9,800,000	$ 12,600,000
To Department of Finance for NSPI grants-in-lieu of taxes (Exhibit 9.5)	8,100,000	9,900,000
To Department of Finance for HST offset payments	6,000,000	6,000,000
To Department of Finance for HST recovery	2,500,000	2,500,000
TOTAL PAYMENTS BY NSPI	**$ 26,400,000**	**$ 31,000,000**

Note: *In 1993, payments by Nova Scotia Power Inc. made directly to municipalities in-lieu of taxes approximated $5 million.*

Exhibit 9.3

Municipal Services Division - Equalization Grants by Municipality (sorted by grant per dwelling unit)

Municipality	Equalization Grants 2002-03	Equalization Grants 2003-04	Dwelling Units 2003	Grant per Dwelling Unit 2003-04
Canso	$ 203,501	$ 231,221	442	$ 523.12
Parrsboro	432,218	433,006	836	517.95
Westville	802,778	790,696	1,584	499.18
Lockeport	150,964	147,273	336	438.31
Springhill	656,548	677,978	1,760	385.21
Bridgetown	176,915	182,118	491	370.91
Pictou - town	610,321	604,542	1,647	367.06
Mulgrave	134,894	134,894	380	354.98
Trenton	463,401	407,848	1,159	351.90
Cape Breton Region	15,458,561	15,620,019	46,504	335.89
Clark's Harbour	124,481	138,377	413	335.05
Stewiacke	192,955	188,911	580	325.71
Shelburne - town	298,751	290,541	963	301.70
Digby - town	306,777	305,242	1,089	280.30
Amherst	985,096	1,030,015	4,331	237.82
Stellarton	473,726	483,726	2,094	231.01
Middleton	176,810	183,665	934	196.64
Windsor	310,151	322,844	1,703	189.57
New Glasgow	813,061	763,978	4,394	173.87
Annapolis Royal	77,099	53,317	342	155.90
Digby County	629,205	629,205	4,381	143.62
Yarmouth - town	268,810	334,830	3,416	98.02
Mahone Bay	50,000	50,000	517	96.71
Inverness County	737,969	737,969	8,015	92.07
Hantsport	50,000	50,000	552	90.58
Oxford	111,949	52,221	579	90.19
Annapolis County	832,684	832,684	9,633	86.44
Region Of Queens	745,738	558,603	6,620	84.38
Clare	384,398	384,398	4,738	81.13
Shelburne County	223,887	223,887	2,887	77.55
Port Hawkesbury	120,909	111,697	1,539	72.58

Municipality	Equalization Grants 2002-03	Equalization Grants 2003-04	Dwelling Units 2003	Grant per Dwelling Unit 2003-04
Cumberland	708,745	708,745	10,337	68.56
Yarmouth County	327,393	327,393	5,069	64.59
Barrington	205,745	205,745	3,557	57.84
Argyle	226,057	226,057	4,056	55.73
Berwick	50,000	50,000	927	53.94
St. Mary's	31,778	106,326	2,008	52.95
Wolfville	190,973	119,724	2,309	51.85
Hants West	289,913	289,913	6,169	47.00
Antigonish County	296,022	296,022	6,363	46.52
Truro	268,747	261,996	5,814	45.06
Victoria	205,046	205,046	4,576	44.81
Lunenburg - town	50,000	50,000	1,189	42.05
Colchester	548,853	548,853	16,311	33.65
Hants East	233,650	233,650	8,628	27.08
Lunenburg County	262,521	262,521	13,483	19.47
Antigonish - town	50,000	50,000	2,570	19.46
Kentville	50,000	50,000	2,589	19.31
Bridgewater	50,000	50,000	3,571	14.00
Pictou County	-	52,304	10,952	4.78
Chester	-	-	6,392	-
Guysborough	-	-	3,389	-
Halifax Regional	-	-	161,361	-
Kings	-	-	20,111	-
Richmond	-	-	5,095	-
TOTALS	**$ 31,050,000**	**$ 31,050,000**	**421,685**	**$ 73.63**

Note: *Equalization grants include $50,000 town foundation grants totaling $1,550,000. Equalization grants have been capped during the years 2002-03 and 2003-04. If grants were based strictly on the equalization formula, they would have totaled $33,962,173 in 2003-04.*

Exhibit 9.4

Grants-in-Lieu of Taxes - Provincial Property (sorted by 2003-04 grant)

	2002-03	2003-04		2002-03	2003-04
Halifax Regional	$ 3,354,357	$ 3,445,396	Barrington County	56,947	62,007
Cape Breton Regional	670,099	663,684	Stellarton	57,711	57,859
Colchester County	339,220	345,209	Chester County	52,162	52,847
Wolfville	263,747	284,765	Clare County	40,839	46,748
Inverness County	266,586	259,257	Hants West County	36,013	38,114
Victoria County	241,145	240,477	Kentville	53,744	21,536
Guysborough County	214,461	223,018	Yarmouth County	18,627	18,482
Yarmouth - town	212,458	214,095	Oxford	12,262	12,348
Antigonish - town	180,369	180,308	Windsor	12,217	12,224
Kings County	166,826	171,266	Truro	10,582	10,582
Cumberland County	154,088	155,029	Canso	7,756	9,226
Shelburne County	145,224	145,071	Shelburne - town	3,249	3,260
Argyle County	126,645	125,485	Annapolis Royal	1,998	1,932
Lunenburg County	123,722	123,929	Stewiacke	1,513	1,542
Pictou County	124,563	123,096	Mahone Bay	1,137	1,171
St. Mary's	119,031	119,166	Springhill	1,048	1,048
Antigonish County	112,035	115,078	Lockeport	500	500
Annapolis County	101,439	107,469	Parrsboro	1,924	448
Digby County	90,725	99,063	Lunenburg - town	439	439
Pictou - town	96,784	98,930	Clark's Harbour	408	408
Amherst - town	97,749	98,394	Bridgetown	374	388
Queens Regional	86,952	87,604	Berwick	-	-
Bridgewater	85,714	85,769	Hantsport	-	-
Digby - town	80,363	85,470	Mulgrave	-	-
Port Hawkesbury	72,874	72,724	New Glasgow	-	-
Richmond County	68,072	70,996	Trenton	-	-
Middleton	63,045	65,826	Westville	-	-
Hants East County	59,786	65,521			
			TOTAL	**$ 8,089,528**	**$ 8,225,204**

Grants-in-Lieu of Taxes - Nova Scotia Power Inc. (sorted by 2003-04 grant)

Exhibit 9.5

	2002-03	2003-04
Halifax Regional	$ 2,509,677	$ 2,509,677
Cape Breton Regional	1,394,568	2,018,408
Queens Regional	822,022	1,304,128
Trenton	483,613	766,944
Annapolis Royal	363,242	574,037
Richmond County	414,248	414,248
Kings County	216,633	216,633
Annapolis County	117,513	213,312
Colchester County	162,318	162,318
Pictou County	143,932	143,932
Digby County	90,429	139,969
Truro	100,367	100,367
Lunenburg County	85,812	85,812
Bridgewater	80,214	80,214
Kentville	48,644	78,233
Hants East County	77,606	77,606
Cumberland County	74,717	74,717
Inverness County	66,052	66,052
Yarmouth County	38,941	62,684
Hants West County	61,832	61,832
Chester County	61,717	61,717
Amherst - town	57,794	57,794
New Glasgow	55,486	55,486
Yarmouth - town	51,360	51,360
Antigonish County	45,862	45,862
Victoria County	39,038	39,038
Barrington County	36,538	36,538
Clare County	36,538	36,538
Argyle County	33,063	33,063
Hantsport	25,732	25,732
Wolfville	25,554	25,554
Stellarton	25,254	25,254
Guysborough County	24,705	24,705
Shelburne County	23,524	23,524
Port Hawkesbury	23,464	23,464
Windsor	22,805	22,805
Springhill	21,638	21,638
Oxford	18,504	18,504
Pictou - town	16,659	16,659
Digby - town	16,422	16,422
Shelburne - town	13,492	13,492
Middleton	13,114	13,114
Westville	12,155	12,155
St. Mary's	10,706	10,706
Bridgetown	6,916	6,916
Clark's Harbour	6,631	6,631
Parrsboro	5,957	5,957
Stewiacke	5,879	5,879
Lockeport	5,075	5,075
Mulgrave	3,834	3,834
Antigonish - town	1,680	2,665
Mahone Bay	415	658
Canso	111	139
Berwick	-	-
Lunenburg - town	-	-
TOTAL	**$ 8,100,000**	**$ 9,900,000**

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS' RESPONSE

Service Nova Scotia and Municipal Relations is pleased the audit confirms that the Municipal Services Division has appropriate control over grants to municipalities, complies with Provincial legislation, and has appropriate systems to monitor municipal operations to the extent required by Provincial legislation.

The Department offers the following comments in response to the three recommendations contained in the audit.

We recommend that the accounts of Service Nova Scotia and Municipal Relations include all expenditures and recoveries relating to grants to municipalities which are the responsibility of the Minister of SNSMR. Nova Scotia Power Inc (NSPI) pays a grant-in-lieu of taxes to municipalities. SNSMR simply facilitates the payment of NSPI's grant-in-lieu to the municipalities.

We recommend the Department ensure reporting of municipal performance occurs on a timely basis. We recommend the Department apply sufficient resources and implement additional procedures, if necessary, to ensure municipal statistical reports are available on a timely basis. SNSMR understands the significance of these initiatives and acknowledges the resource challenges related to their execution. The Department has started work on a plan to address these challenges. As SNSMR's ability to report is dependent in part upon municipal reporting, the plan will involve working with our municipal clients to improve timeliness.

Crown Agencies and Corporations

10 RESOURCE RECOVERY FUND BOARD INCORPORATED

BACKGROUND

10.1 Resource Recovery Fund Board Incorporated (RRFB) was established by the Province of Nova Scotia on January 5, 1996. It was created as a not-for-profit corporation under the Companies Act of Nova Scotia for the purpose of administering the Resource Recovery Fund.

10.2 The Resource Recovery Fund is to be administered in accordance with an agreement between RRFB and the Province. The current agreement is dated June 21, 2001 and is for a period of ten years, with an option to renew for an additional ten years. The agreement requires RRFB to administer the Resource Recovery Fund to achieve the goals of the Fund as defined in Section 4(1) of the Solid Waste Resource Management Regulations.

10.3 The goals of the Fund are to:

- develop and implement industry stewardship programs;
- fund municipal or regional diversion programs;
- develop and operate a deposit-refund system for beverage containers;
- develop education and awareness of source reduction, reuse, recycling and composting; and
- promote the development of value-added manufacturing in the Province.

10.4 The Resource Recovery Fund Board describes its mission as:

> *"to ensure that the people of Nova Scotia receive the maximum environmental and economic benefits associated with responsible solid waste management by developing and administering sustainable industry stewardship programs that increase diversion, assist in the establishment of new industries based on the processing of materials diverted from the waste stream, and provide incentives to residents to reduce, reuse, recycle and compost."*

10.5 RRFB's operations are overseen by a Board of Directors which currently consists of twelve directors. RRFB may have between seven and fifteen members on its Board of Directors. Regulations empower the Minister of Environment and Labour to appoint three members, one of whom is the Chair. RRFB appoints a nominee from the Union of Nova Scotia Municipalities as a director. The remaining members are appointed by decision of the Board.

10.6 RRFB is accountable to the Minister of Environment and Labour and must follow an annual action plan approved by the Minister. The Minister has the authority to define RRFB priorities and directions. RRFB must also submit an annual report to the Minister.

10.7 RRFB is located in Truro and has a staff complement of 25. For the year ended March 31, 2004 it had revenues of $37.3 million, expenses of $27.4 million and a surplus of $9.9 million. The surplus was used, in part, to fund solid waste diversion in municipalities, education and awareness initiatives, regional waste coordinators and other approved programs.

10.8 Our Office previously conducted an audit of RRFB in 1997. Most, but not all, matters reported upon in our 1997 Report have been addressed by RRFB, or through government initiatives. Matters not fully addressed have been reconsidered and, if appropriate, included in this Report.

RESULTS IN BRIEF

10.9 The following are our principal observations from this audit.

- There is adequate and timely performance reporting within Resource Recovery Fund Board. RRFB has clearly defined goals and objectives, and has developed performance indicators and set targets to help it assess its performance. However, RRFB's external reporting does not include reporting of performance with respect to these indicators and targets.

- The Resource Recovery Fund Board was created to administer the Resource Recovery Fund. The administration agreement with the Province states that RRFB has no *right, claim or title* to the property of the Fund. However RRFB's financial statements report that RRFB owns the Fund assets, and there is no separate financial reporting by the Fund.

- Our audit of information technology controls at Resource Recovery Fund Board concluded that the organization's general computer environment and application controls are adequate.

- Resource Recovery Fund Board does not follow the Provincial Procurement Policy. We believe procurement practices at RRFB are contrary to the Provincial policy's objective of ensuring all public sector procurement is completed in an open, fair and competitive manner.

- RRFB undertook to sell its expertise and technology to various other countries, focusing primarily on the Caribbean. The initiative was undertaken without completing a detailed business plan. RRFB did not prepare an analysis of the costs, benefits or risks of the initiative, nor has it tracked expenses for the project or monitored its progress against any identified goals or targets.

- The Resource Recovery Fund Board has incurred expenses for Board of Director and other liability insurance. However, it appears that the Environment Act protects the organization from liability. Based on our advice, RRFB is reviewing the matter to determine the degree of protection provided by legislation.

AUDIT SCOPE

10.10 We completed a broad scope audit of Resource Recovery Fund Board Incorporated in October 2004. The audit was conducted in accordance with Sections 8 and 17 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures as we considered necessary in the circumstances.

10.11 The objectives of the audit were to assess:

- the adequacy and timeliness of performance reporting;
- control over computer processing and the general computer environment;
- control over revenue and expenses;
- systems and control over the provision of financial assistance and whether the objectives of approved projects are consistent with RRFB's objectives;
- policies and procedures for monitoring funded projects; and
- management's progress in addressing the issues identified in the 1997 Auditor General's Report.

10.12 Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by senior management of RRFB.

10.13 Our audit included an examination of relevant legislation, regulations, policies and procedures; a review of Board and Executive Committee minutes; detailed transaction testing; a review of other relevant documentation; and interviews with staff, as well as the current and past Chairs of the Board.

PRINCIPAL FINDINGS

Performance Reporting

10.14 The results of our audit indicate that RRFB has appropriate and timely performance reporting within the organization. There are clearly defined and communicated goals and objectives. Performance indicators and quantified targets have been developed. Performance is regularly assessed against the organization's goals, objectives and performance targets. There are adequate systems to collect and support performance information.

10.15 External performance reporting by RRFB is limited to its annual report. The annual report does not include information on RRFB's performance indicators and success in meeting targets. We concluded that performance information included in the annual report is not fully supported and is insufficient to adequately assess performance.

Recommendation 10.1

We recommend that Resource Recovery Fund Board improve its external reporting of performance. Including information such as performance against quantified targets in the organization's annual report would improve its usefulness as an accountability document.

10.16 We also reviewed RRFB's financial reporting. We noted that the Solid Waste Resource Management Regulations require all funds from the beverage container deposit-refund system to be deposited to the Resource Recovery Fund, which was established as a *special fund* under the Provincial Finance Act in January 1997. The Regulations and the agreement between the Province and RRFB establish RRFB as the administrator of the Fund. The agreement also states that RRFB has no *right, claim or title* to the property of the Fund.

10.17 However, the financial statements of RRFB report all assets as being the property of RRFB, and there is no separate reporting for the Fund. We concluded that the financial statements of RRFB are inconsistent with the agreement with the Province and the Solid Waste Resource Management Regulations. In addition, the financial statements are not in compliance with generally accepted accounting principles which require the reporting entity to own or have a right to the assets reported in its financial statements.

10.18 Our review of the financial statements also noted that certain expenses, such as payments to the Province for expenses incurred on behalf of RRFB, are reported in the statement of changes in net assets. Generally accepted accounting principles require all current year expenses to be recorded in an organization's statement of operations. Otherwise, the net income of an entity will be overstated.

10.19 We also found that RRFB recognizes financial assistance as a liability once a project has been approved for funding, and not when eligibility requirements have been met by the organization requesting assistance. In accordance with generally accepted accounting principles, approved funding should be recorded as commitments until all eligibility requirements are satisfied. Once eligibility requirements are met, a liability should be recognized.

10.20 In addition, the financial statements of RRFB do not fully comply with all disclosure requirements of generally accepted accounting principles, such as requirements for providing descriptions of restricted funds.

Recommendation 10.2

We recommend that Resource Recovery Fund Board review its financial reporting policies to ensure its annual financial statements are fairly presented in accordance with associated agreements, regulations and generally accepted accounting principles.

Internal Control

10.21 Information technology - Our examination of information technology controls at Resource Recovery Fund Board concluded that the organization's general computer environment and application controls are adequate. However, we observed some matters which should be addressed.

10.22 RRFB's mission critical system (ROCAPS) is dependent on two file servers. The servers are not housed in an industry-standard computer room with appropriate environmental controls such as dedicated air conditioning and rigorous physical access control. We observed some risks to the equipment in its current setting.

10.23 RRFB performs full system and data back-ups each day. They are stored off-site, but they are not stored in an appropriately controlled environment. We believe backup media should be stored in a secure, fireproof and temperature/humidity controlled off-site environment.

10.24 There are formal security policies and practices in place at RRFB. There are also guidelines to instruct staff in the acceptable use of information technology resources. These policies and guidelines are communicated to staff, but staff are not required to document that they have read, understood and agree to abide by the policies and guidelines.

Recommendation 10.3

We recommend that initiatives be taken to strengthen control over information technology, including an industry-standard computer room, more secure off-site storage of file back-ups, and documentation of staff agreement to follow the organization's security policies and acceptable use guidelines.

10.25 Revenues and expenses - The results of our audit indicate that generally there is adequate control over the revenues and expenses of Resource Recovery Fund Board. However, we observed instances where control could be improved.

10.26 Recyclables collected by Enviro-Depots are transported to regional processing centres for packaging and shipment to markets for solid waste resources. RRFB does not own or operate these entities, but pays fees based on the volume of product processed. Control over the reporting of goods sent from an Enviro-Depot to a regional processing centre includes reporting by truckers and audit checks involving the trucking of materials. However, there are two locations in the Province where both an Enviro-Depot and regional processing centre are operated in the same building. In these two situations, recyclables are not trucked and there is no audit function.

10.27 RRFB management is aware of the issue and attempts to mitigate the risk through additional analysis of the information reported by these two Enviro-Depots and regional processing centres. However, we believe current controls are insufficient to compensate for the increased risk in these situations.

Recommendation 10.4

We recommend that Resource Recovery Fund Board strengthen controls to reduce the risk associated with the two co-located Enviro-Depots/regional processing centres.

10.28 Our audit of internal control over revenue and expenses included an examination of a sample of transactions. We observed a lack of documentation to indicate that certain controls over revenues were functioning as intended. We also found that purchase orders were sometimes approved subsequent to the actual purchase.

10.29 RRFB's 2001 agreement with the Province requires it to "*reimburse the Department of Environment and Labour for all reasonable services performed and expenses incurred by the department in furtherance of the achievement of the goals, objectives and the mandate of the Board or the Fund to a maximum of 10% of net revenues.*" Payments from RRFB to the Department between the date of the agreement and March 31, 2004 total $2.9 million. We reviewed documentation provided to RRFB by the Department to support the payments and concluded it was insufficient. It was based on estimated, not actual, expenses and there was no clear indication of how such expenses furthered the achievement of the goals, objectives and mandate of RRFB or the Fund. We also noted that the Department directed RRFB to pay $535,000 a few months before the 2001 agreement was signed. Similarly, there was insufficient support for the amount requested. Based on discussions with RRFB management, there are no agreements on formula, listing of eligible costs or cost allocation method to determine which costs of the Department are reimbursable. Accordingly, RRFB has no means of reviewing the reasonableness of payments requested by the Department.

Recommendation 10.5

We recommend that Department of Environment and Labour requests for payment for reimbursable expenses be supported by an analysis of actual expenses made by the Department, and an indication of how such expenses further the achievement of the goals, objectives and mandate of RRFB or the Fund.

10.30 We found that RRFB does not apply the Provincial government's Procurement Policy. The Policy indicates that it is applicable to all government agencies, boards and commissions, as well as organizations that are Provincially funded, such as school boards and crown corporations. In our opinion, the Provincial Procurement Policy applies to RRFB.

10.31 We tested some procurement transactions and found several purchases were made without a sufficiently rigorous competitive process. We also noted the existence of long-term relationships with multiple suppliers which resulted in untendered procurements without a contract or standing agreement. An objective of the Provincial Procurement Policy is to ensure all public sector procurement is completed in an open, fair and competitive manner. We believe that current procurement practices at RRFB are contrary to this objective.

10.32 During the course of the audit, RRFB management presented a draft procurement policy for our review. The draft policy does not comply with the Provincial Procurement Policy in all areas.

Recommendation 10.6

We recommend that Resource Recovery Fund Board adhere to the spirit and detailed requirements of the Nova Scotia Procurement Policy.

10.33 The agreement between the Province and RRFB entitles members of the Board of Directors to a per-diem payment of $150 for each meeting attended. We observed payments for non-meeting events such as award ceremonies, and payments for attending Board meetings of a subsidiary company which are not provided for under the agreement. We believe all RRFB expenses should be in compliance with the agreement.

10.34 In response to an unsolicited proposal in the spring of 2003, RRFB contracted with an external consultant to assist RRFB in its attempt to sell its expertise and technology to various other countries, focusing primarily on the Caribbean. This initiative was undertaken without preparing a detailed business plan. RRFB did not analyze the costs, benefits and risks of the initiative, nor has it tracked its expenses for the project or monitored its progress against any identified goals or targets.

10.35 Based on our review of expense files, RRFB has paid approximately $38,000 to the consultant and incurred approximately $10,000 for travel to the Caribbean. Additional amounts have been spent preparing marketing materials for this venture, but these amounts could not be easily identified. RRFB hosted two groups from the Caribbean in September 2004. No contracts have been signed as of the date of drafting this Report.

Recommendation 10.7

We recommend that new business initiatives be adequately supported by a comprehensive analysis of the costs, benefits and risks. Costs and progress against identified goals and targets should be monitored throughout the life of the project.

Grants and Contributions

10.36 RRFB's mandate and its agreement with the Province permit it to provide financial assistance and incentives for environmental programs. Our examination of RRFB's financial assistance programs concluded that there are adequate policies and procedures to assess and approve grant applications and to monitor funded projects. Roles and responsibilities for the provision of financial assistance are clearly established and communicated. However, we observed a need for more formal documentation of these items.

10.37 For the years ended March 31, 2002 and 2003, financial assistance totaled $2,246,207. We selected 20 projects for examination, which accounted for $1,437,930 (64%) of total assistance awarded during these periods. We found that the objectives of approved projects are consistent with the objectives of RRFB and that applications for financial assistance are reviewed and approved in accordance with established criteria and program guidelines. Approved projects are monitored for compliance with the terms of the letter of offer from RRFB, and payments are made in accordance with these terms.

10.38 We also noted the following from our tests.

- One project was approved before the program guidelines were met.
- In two cases, there was no documentation to support compliance with the terms of reference prior to payment.
- There was no formal application for one project. It was approved based on a proposal submitted by the applicant.
- Documents were missing in four cases.

10.39 We identified a need for RRFB to establish file documentation standards for its financial assistance programs. We also found that RRFB does not have a process to formally rescind previously approved financial assistance which is no longer required by the applicant.

Other Observations

10.40 Governance - RRFB does not have bylaws. The organization's articles of association serve as its bylaws. The articles were prepared in 1996 and have not been updated. There have been developments in the areas of corporate governance, management and accountability, as well as statutory changes affecting the operations of RRFB which should be reflected in the articles or in a set of bylaws.

Recommendation 10.8

We recommend Resource Recovery Fund Board update its articles of incorporation or prepare a set of comprehensive corporate bylaws.

10.41 On July 21, 2004, the Board of Directors of RRFB appointed its Chair to be the organization's chief operating officer on a temporary basis until a vacancy in the position could be permanently filled. Although it was understood that this individual would be compensated upon assuming responsibility, a remuneration package was not approved until September 14, 2004. The remuneration and expectations for the temporary position were not formalized in a contract. We advised that such arrangements be handled by way of contract.

10.42 We also noted that the Chair of the Board was present at the Executive Committee and Board of Directors meetings in which the remuneration package was discussed and voted upon. We were informed that the Chair did not vote on the matter. However, there is no indication in the minutes of this. We suggested that more care be taken to document all measures taken to avoid conflicts of interest among members of the Board of Directors.

10.43 Planning and reporting - RRFB does not have a long-term strategic plan. Management indicated that they have begun the process of developing one.

10.44 The annual business plan of RRFB is not published with the business plans of other agencies of the Province and its annual report is not tabled in the House of Assembly. We believe these documents should be treated similarly to those of other government agencies so that RRFB is held to the same level of accountability.

10.45 Compliance - RRFB has acquired a 60.8% subsidiary interest in Novapet, a company which processes waste plastic. RRFB's memorandum and articles of association provide the authority for such an acquisition. Provincial legislation does not address the authority by which government entities create, acquire or dispose of other government entities. We believe that a government entity's ability to create, acquire and/or dispose of another entity should be subject to the review and approval of a central government agency.

Recommendation 10.9

We recommend that all government entities be required to obtain formal approval before they create, acquire or dispose of another government entity.

10.46 The audited financial statements of Novapet indicate that it has bank loans. The Provincial Finance Act requires funded obligations of a government entity to receive Governor-in-Council approval. Approval was not obtained in this case. RRFB management stated they were unaware of this legislative requirement. We believe there is a need for better communication of legislative requirements to government entities.

Recommendation 10.10

We recommend government establish a communication process to ensure relevant statutory, policy or other requirements are effectively communicated to the governing bodies and senior management of all government entities. We also recommend Resource Recovery Fund Board put in place a process to ensure it is aware of, and in compliance with, all statutory or other requirements affecting its operations.

10.47 Insurance - Section 143 of the Environment Act provides protection from liability for certain individuals and agencies of government. The Solid Waste Resource Management Regulations and RRFB's agreement with the Province state that Section 143 of the Environment Act applies to RRFB. However, RRFB has purchased Board of Director and other liability insurance. Based on our advice, RRFB is reviewing the matter to determine the degree of protection provided by legislation.

10.48 Our review of the RRFB liability issue also identified that the Province does not have a government-wide policy to addresses liability issues. We believe that such a policy would provide the Province with an opportunity to fully assess and manage risk on a corporate-wide basis and avoid duplication of insurance coverage.

10.49 Taxation - We observed the payment of certain municipal taxes by RRFB related to real property. Based on our research, RRFB is exempt from such taxes. RRFB has initiated steps to recover the taxes.

10.50 RRFB has been advised by the Canada Revenue Agency that it will be required to charge the Province HST on the amount charged by RRFB for administrative services rendered for the used tire program. This appears to be inappropriate because RRFB is itself a government entity, and Provincial government entities do not charge each other HST. We believe the tax status of RRFB needs to be reviewed and clarified.

CONCLUDING REMARKS

10.51 Overall, Resource Recovery Fund Board has adequate internal performance reporting and adequate internal controls. RRFB also has reasonable policies and processes related to the provision of financial assistance. However, we have made recommendations for improvements regarding external performance reporting, compliance with generally accepted accounting principles in financial reporting, internal controls, as well as in other areas.

10.52 The Resource Recovery Fund Board is an agency of government and, as such, needs to ensure it is in compliance with Provincial legislation, regulations and policies which will further its accountability and ensure appropriate stewardship of public funds.

Other Audit Observations

11 REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

11.1 The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act.

11.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of financial statement audits by private sector auditors, as well as comments on audits performed by this Office.

11.3 The financial statements of the Public Archives of Nova Scotia were subject to a review, rather than an audit, as the operating budget of the Archives is now part of the annual budget of the Department of Tourism, Culture and Heritage.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

11.4 We reviewed the audited financial statements and reports prepared by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- the audit opinion was based on Canadian generally accepted accounting principles, or on a disclosed basis of accounting;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

11.5 The following observations resulted from our review.

Reservations of Opinion

11.6 The auditor of AgriTECH Park Inc. issued a qualified audit opinion on the March 31, 2004 financial statements. The auditor was appointed in the current year and was not able to verify the opening balances which were unaudited, and enter into the determination of the results of operations and cash flows.

11.7 The auditor of the Art Gallery of Nova Scotia issued a qualified audit opinion on the March 31, 2004 financial statements. As a charitable organization, the

Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for charitable organizations that receive donations.

11.8 The auditor of the Nova Scotia E911 Cost Recovery Fund issued a qualified audit opinion on the financial statements. The Fund is managed by the Emergency Measures Organization which has the ability to incur expenses on behalf of the Fund. The completeness of the expenses that the Fund incurs is not susceptible to conclusive audit verification.

Disclosed Basis of Accounting

11.9 As the result of recent changes to the Canadian Institute of Chartered Accountants Handbook, auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with Canadian generally accepted accounting principles. The audit reporting on financial statements prepared using a disclosed basis of accounting which is not generally accepted is deemed to be for specific users - not for general purpose - and should include wording similar to the following:

> *"these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator ... for the (purposes(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose..."*

This approach to the preparation of financial statements reduces the value of the statements to the House and the general public.

11.10 The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.

- The financial statements for all school boards were prepared using accounting principles for Nova Scotia School Boards as prescribed by the *District School Board Financial Handbook* published by the Department of Education.
- The Nova Scotia Power Finance Corporation and Sydney Environmental Resources Limited financial statements were prepared on a disclosed basis of accounting.
- The Sherbrooke Restoration Commission's financial statements were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism, Culture and Heritage.

Financial Controls and Records

11.11 In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. For audits where management letters were issued, summary observations of the more significant matters included are as follows.

- The auditors of the Tri-District Health Authority (District Health Authorities 1, 2 and 3) noted that the timeline for conversion of the payroll system to SAP may pose an interim risk for payroll support before the conversion can take place.

- The auditors of the Capital District Health Authority (District Health Authority 9) noted various computer-related issues surrounding the change management process, access controls and passwords.

- The auditors of the Colchester East Hants Health Authority (District Health Authority 4) recommended improvements to enable better management and record keeping of capital assets. They noted instances where the Authority's information technology policies could be improved. The auditors also raised concerns over the centralized general ledger shared with two other health authorities related to the lack of access controls and process inefficiencies.

- The auditors of the Cumberland Health Authority (District Health Authority 5) found weaknesses in accounts receivable monitoring and inadequate segregation of duties due to the lack of access controls over the centralized general ledger.

- The auditors of the Guysborough Antigonish Strait Health Authority (District Health Authority 7) commented on the lack of accountability over management of the pharmacy inventory.

- The auditors of the Pictou County Health Authority (District Health Authority 6) noted weaknesses in completion of regular monthly accounting procedures and tracking capital assets. They noted instances where the Authority's information technology policies could be improved. The auditors also raised concerns over the centralized general ledger shared with two other health authorities related to the lack of access controls and process inefficiencies.

- The auditors of the Conseil scolaire acadien provincial, Southwest Regional School Board, Strait Regional School Board and Metropolitan Housing Authority, respectively, suggested that the entities request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.

- The auditors of Highway 104 Western Alignment Corporation commented on the design limitations of the tolling system that do not support individual user profiles and passwords for staff.

- The auditors of the Insured Prescription Drug Plan Trust Fund noted several instances where controls over assets or efficiency of the accounting system could be improved.

- The auditors of the IWK Health Centre reiterated prior year's concerns surrounding various computer and access control issues.

- The auditors of the Nova Scotia Health Research Foundation suggested a reconciliation of the grants payable spreadsheet to the accounting records be completed on a regular basis.

- The auditors of Resource Recovery Fund Board Inc. noted that documentation in approved program funding files could be improved. They also reported that the Board's information technology policies and practices could be improved.

- The auditors of the Tri-County Housing Authority raised concerns about the controls over the initiating, processing and payment of expenditures. They also noted that balance sheet accounts are not being reconciled on a regular basis and support for some payroll entries is not retained in the files.

- The auditors of the Waterfront Development Corporation noted that recommended changes to access and password controls identified in prior years had still not been made. They also recommended that the Corporation develop a process to assess whether real estate and development projects are recoverable and whether the carrying amount in the accounting records is appropriate and supportable.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

11.12 The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 of this Report for comments and observations on our audit of the Province's March 31, 2004 statements.

11.13 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds and trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2004, the Office contracted nine financial statement audits with private sector audit firms. The Office signed contracts with these firms and provided oversight supervision for the audits. The auditor's report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

11.14 The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on such matters.

11.15 The auditor's report on the March 31, 2004 financial statements of the Atlantic Provinces Special Education Authority was qualified because the Authority derives revenue from donations and bequests. The completeness of this revenue is not susceptible to conclusive audit verification. This is in common with many organizations that receive donations and bequests. The report was further qualified because the treatment of internally restricted donations and investment income did not comply with Canadian generally accepted accounting principles and certain employee retirement benefits are not accrued and recorded.

11.16 The auditor's report on the March 31, 2004 financial statements of the Industrial Expansion Fund referred to a disclosed basis of accounting, as in previous years. An unqualified audit opinion on such general purpose financial statements requires the use of Canadian generally accepted accounting principles. The auditor's report was qualified because certain expenses and revenues were not reflected in the financial statements. As well, a statement of cash flow was not provided and classification and disclosure of receivables was not adequate. The audit matters noted will have to be addressed by the Fund to avoid qualifications in future years.

11.17 The auditor's report on the March 31, 2004 financial statements of the Nova Scotia Farm Loan Board was qualified because satisfactory evidence to support management's estimate of the allowance for loan impairment was not provided.

11.18 The auditor's report on the March 31, 2004 financial statements of the Nova Scotia Housing Development Corporation was qualified because revenues and expenses related to certain programs under federal-Provincial agreements have not been included in the financial statements.

11.19 The auditor's report on the March 31, 2004 financial statements of the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund-raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for this type of organization.

11.20 The auditor's report on the March 31, 2004 financial statements of the Public Trustee Trust Funds was qualified because the nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for such trust funds.

System Weaknesses

11.21 During the Office's financial statement audits, situations were noted where accounting and control systems or procedures were deficient. Although they were not of a magnitude to require reservation of an audit opinion, a number of these situations are summarized in this Chapter.

11.22 Nova Scotia Farm Loan Board - There are weaknesses related to the monitoring of loans and a lack of documentation to support the loan valuation process. A thorough analysis should also be performed to support any changes made to the general allowance for loan impairment.

11.23 Nova Scotia Innovation Corporation - The issue of whether the Corporation has the legislative authority to approve asset write-offs independent of the Province's (i.e., Executive Council) approval should be further investigated by management.

11.24 Nova Scotia Public Service Superannuation Fund - Certain commuted value payments to individuals who left employment with the government, estimated at $9.8 million, were underpaid since 1992. Management should complete its analysis of the underpayments and implement procedures to ensure amounts are paid out appropriately, on a timely basis. Other issues identified, such as membership data accuracy and user access, relate to the entire pension administration system. This system comprises all pension recipients, including those of the Teachers' Pension Plan and the Sydney Steel Corporation Superannuation Fund. As noted in Chapter 3 (page 17) of this Report, an audit of the pension administration system is in process which may address some of these issues.

11.25 Nova Scotia Public Trustee - The Trustee should move from the cash basis to the accrual basis of accounting in order to comply with Canadian generally accepted accounting principles. As noted in prior years, a reconciliation of the mail book to the deposit slips is needed.

11.26 Nova Scotia Talent Trust - A number of cheques were prepared with only one signature rather than two signatures as required. The Trust should also have appropriate controls on its gala ticket sales to reduce the likelihood of accounting inconsistencies.

11.27 Sydney Steel Corporation Superannuation Fund - There should be an oversight board established to monitor the performance and management of the fund.

Timeliness of Financial Reporting

11.28 The Provincial Finance Act requires that financial statements for government business enterprises and governmental units be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31).

11.29 There was considerable improvement this year in the number of entities that met the submission deadline. There were eight entities (20 in 2003) that were not fully successful in providing audited financial statements and requested information by June 30.

11.30 The Province's March 31, 2004 consolidated financial statements were released on September 30, 2004 meeting the new reporting requirement set out in the Provincial Finance Act. The release was six weeks earlier than in the previous year.

Appendix

I AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

REPORT of the
AUDITOR GENERAL
to the NOVA SCOTIA
HOUSE OF ASSEMBLY

2004

December
Highlights

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

HIGHLIGHTS

PREFACE

This Report includes the results of audit work completed between June 2004 and November 2004.

In an attempt to give readers an appreciation of the most significant findings contained in my December 2004 Report, I publish this highlights volume. It provides a brief summary of the results of audit work included in the Report.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

Again this year we have set out our recommendations to government in each Chapter. To assist readers we have also included all 53 recommendations in this highlights volume. I hope this is useful.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report would be welcomed.

E R Salmon

E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
November 26, 2004

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INTRODUCTION

Message from the Auditor General

Pages 2 - 4

1.1 This Report does contain many positive findings and I acknowledge the efforts public servants are making to manage programs effectively. I also acknowledge the willingness of these public servants to consider and act upon recommendations made as a result of audits. I have established a practice of following up on recommendations after a three-year period and have been pleased to note the actions taken. However, as has been discussed in the Report, there are significant challenges and opportunities to improve controls and more effectively manage taxpayers' dollars.

1.2 Finally, I wish to acknowledge the efforts of my own staff, from my senior management team through to the newest recruited student. This Report would not be possible without the knowledge, analysis and professionalism they put into their assignments.

GOVERNMENT-WIDE ISSUES

Government Financial Reporting

Pages 6 - 16

2.1 The Auditor General's audit report on the Province's March 31, 2004 consolidated financial statements was unqualified. It was tabled September 30, 2004 as part of the March 31, 2004 Public Accounts. The earlier release this year of the Public Accounts met the new statutory deadline established by the House in spring 2004. A management letter on this year's audit was issued to government in November 2004.

2.2 Government's response to matters reported by the Auditor General as a result of our review of the 2004-05 revenue estimates will be followed up as part of the 2005-06 review.

2.3 No additional appropriations have been approved since our last Report, released in June 2004. Additional spending authority for 2003-04 of $99,017,000, for net program expenses where approved vote totals were exceeded, requires Order in Council approval within 90 days of the release of the March 31, 2004 Public Accounts. No special warrants have been approved since our last Report.

Government Systems and Controls

Page 17 - 28

3.1 Government has a number of significant systems and control improvement initiatives in process, including the following:

- addressing the recommendations from our 2003 Report concerning CFMS/SAP, including the results of a service auditor review to be reported in November 2004;

- completing the implementation of the SAP HR module for core government and regional school boards (eMerge Project). New implementation dates have been established and increased funding approved for this project;

- addressing recommendations from an audit of the governance and control structures for the pension investments and treasury areas;

- addressing recommendations from an external firm's review of the *procure to pay* process;

- addressing the governance and project management issues concerning the Pension Administration System implementation project identified in previous audit reports, and completing the project; and

- addressing recommendations from an external firm's audit of the Art Gallery of Nova Scotia's governance and management processes.

3.2 Compliance with the government procurement policy for the use of alternative procurement arrangements needs to be improved.

3.3 A new security policy and standards for the government's wide area network were implemented effective October 1, 2004. Steps are currently underway, through the Department of Transportation and Public Works, to ensure that any non-compliant practices or procedures are identified and addressed.

3.4 The current Government of Nova Scotia Management Manuals do not have a policy requiring departments and entities to report losses. Prior versions of the Manuals included this requirement.

3.5 In the past year, there has been a great deal of public and media attention on matters reported to the Parliament of Canada regarding the controls and other activities related to the Federal "sponsorship" program. The magnitude of such matters, in relative monetary terms, in Nova Scotia equates to less than $1 million per year. The question that needs to be asked is whether Nova Scotia's public sector management and control systems and processes are sufficient to prevent or detect such issues.

3.6 Good systems and controls can be costly, while too many or less than optimized controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.

DEPARTMENT AUDITS

• • Office of Economic Development

Nova Scotia Business Inc. - Payroll Rebates
Pages 30 - 40

4.1 NSBI has adequate policies and procedures regarding the financial management of the payroll rebate program and demonstrates due regard for economy. Since NSBI's inception, improvements have been made to the payroll rebate program; including a terms and conditions section in rebate agreements that typically addresses several areas such as number of jobs to be created and average salary.

4.2 NSBI management informed us that they are revising the standard terms and conditions for payroll rebate agreements. We have recommended that NSBI clarify what is required by the *external auditor's certificate* and develop wording to ensure these certificates will provide the desired level of assurance.

4.3 Overall, NSBI's process for identifying, researching and approving potential rebate clients is well-managed. One area where we have recommended improvements is in the documentation of procedures for the risk assessment of prospective clients.

4.4 NSBI does not formally inquire whether all rebate clients are in receipt of additional government funding although repeat clients are asked to indicate non-NSBI sources of funding. We have recommended that NSBI include this information in rebate proposal documents to ensure its Investment Committee, Board and the Executive Council have a complete financial picture of prospective clients.

4.5 NSBI's monitoring of payroll rebate agreements in progress was found to be appropriate. Improvements are required to longer-term monitoring of rebate clients once the agreements have expired. Management informed us they are implementing an account management system which will allow tracking of rebate clients and we encourage NSBI to continue working towards implementing this system.

4.6 NSBI's verification and documentation of recipients' compliance with payroll rebate agreements was found to be adequate. No problems were noted with the disbursement process and NSBI staff involved had a good understanding of requirements. However, there are no written guidelines for rebate disbursements and we have recommended that NSBI formally document disbursement procedures.

4.7 Overall, NSBI has policies and procedures in place to ensure compliance with legislation and regulations. We noted one area where NSBI was not fully compliant with regulations and recommended that NSBI comply in the future.

4.8 Our recommendations from this audit are as follows:

Recommendation 4.1

We recommend that NSBI develop written procedures for the risk assessment process to ensure it is completed consistently for each payroll rebate client. Consideration should also be given to whether staff should be required to utilize common checklists to ensure consistency in assessing the risk of each potential client.

Recommendation 4.2

We recommend that NSBI determine whether potential rebate clients are in receipt of or will receive other forms of government assistance for the same project and verify funding where applicable. This information should be provided in rebate proposal documents to ensure NSBI's Investment Committee, Board and the Executive Council have a complete financial picture of prospective clients.

Recommendation 4.3

We recommend that NSBI formally document procedures for payroll rebate disbursements.

Recommendation 4.4

We recommend that NSBI finalize revised wording for standard rebate terms and conditions. The level of assurance required from an external auditor or procedures to be performed to verify a company has met the terms and conditions necessary for rebate disbursement should be clearly stated.

Recommendation 4.5

We recommend that payroll rebate guidelines and policies be included in NSBI's annual business plan as required by Regulations.

• • Finance

Pension Asset Management and Governance of Retirement Benefits

Pages 41 - 54

5.1 Assets available to fund the Province's pension plans totaled $7.3 billion at March 31, 2004. A Statement of Investment Policies and Goals was established several years ago to provide guidance on the management of these assets. Changes to the Statement should be formally approved by the Minister of Finance as Trustee.

5.2 An Investment Advisory Committee (IAC) has been in existence since as early as the 1980s to provide advice on asset mix and management of funds to the Minister of Finance as the plans' Trustee. Recent changes in asset mix approved by the IAC indicate that the role of the committee has moved beyond that of advisory. We have recommended that the IAC adhere to its role as advisor to the Trustee. We have also recommended that the committee consider expanded use of external consultants to corroborate its suggested changes to investment strategies.

5.3 We tested internal controls over the recording and monitoring of transactions. We found no errors in our testing.

5.4 External investment managers manage the entire equity portfolio and a portion of the fixed income portfolio of the plans. Individual contracts with these managers specify their mandates. We have recommended that a formal system be established to monitor compliance with these mandates.

5.5 There is a well-established system for reporting investment performance. We tested the support for this system and found no errors. Finance management should continue its efforts to establish a performance management system for all aspects of pension administration.

5.6 Governance arrangements for the two most significant pension plans (Teachers' Pension Plan and Public Service Superannuation Plan) are under review. Protocols established as a result of these reviews should include sufficient, appropriate reporting to the plan trustee or administrator.

5.7 The magnitude of the financial obligations and assets associated with the various pensions and other retirement benefit plans warrants improvements being made to, and formalization of, governance and management control processes.

5.8 In addition to matters discussed in this chapter, government needs to ensure the results and recommendations of the audit commissioned separately by Department of Finance management, of the governance and controls in the pension and treasury areas of its operations, are appropriately addressed on a timely basis.

5.9 Our recommendations from this audit are as follows:

Recommendation 5.1

We recommend that changes to the Statement of Investment Policies and Goals should be formally approved by the Investment Advisory Committee for recommendation to and approval by the Trustee.

In addition, the Statement should explicitly state the overall risk tolerance or refer to an overall risk management plan.

Recommendation 5.2

We recommend the Investment Advisory Committee adhere to its role as an advisory committee to the Minister. Formal terms of reference should be developed and approved for the Committee, and updated periodically as appropriate.

Recommendation 5.3

We recommend the Investment Advisory Committee should consider increased use of external consultants to corroborate changes to investment strategies suggested by Department of Finance staff.

Recommendation 5.4

We recommend that a system to formally monitor compliance with contractual requirements and mandates of external investment managers should be established.

Recommendation 5.5

We recommend that the control framework related to pension and other retirement obligations should be formalized as required. Committees involved in the monitoring and/or approval of benefits should provide regular reports to the plan trustee or administrator.

Recommendation 5.6

We recommend that management should continue to develop a sufficient and appropriate performance

management system for the administration of pension and other retirement obligations.

• • Health

Capital District Health Authority

Pages 55 - 75

6.1 Our audit testing revealed weaknesses in both the billing and credit management processes at the CDHA. Testing revealed weaknesses in certain billing processes including a need for interim billings.

6.2 A large bill (approximately $642,000) had accumulated for a resident of another country and there was no documented understanding of how it would be paid. There is a need for the Department of Health and DHAs to reconsider existing policies for the provision of services to non-Canadians. Policies should require detailed reviews of individual cases by both the DHA and the Department of Health for appropriate action when charges or length of stay have reached specified targets.

6.3 Capital requirements are increasing annually and we continue to urge the development of a collaborative plan from the Department of Health and CDHA to develop an appropriate funding strategy for the longer-term capital requirements. The CDHA's 2004-05 budget submission shows deferred capital requests of $87 million.

6.4 The financial statements of CDHA do not disclose its relationship with Partners for Care which recorded $6.8 million from revenue-generating activities including parking lot fees in the 2003-04 fiscal year. The excess of revenue over expenses is transferred to the

CDHA but financial statement disclosure of the relationship between Partners for Care and CDHA needs to be improved. Similarly, there is a need to enhance the disclosure relating to funds transferred from the Foundations.

6.5 The majority of the recommendations from our 2001 audit have been addressed, however we noted that there are still a few outstanding.

6.6 Nova Scotia's DHAs do not have *case costing* systems and, therefore, are unable to accumulate costs related to providing services to a specific patient. Uninsured patients are billed on the basis of a *per diem* rate based on residency and accommodation choice regardless of the actual cost incurred in the provision of services to that patient. Other Canadian jurisdictions experience the same problems with lack of *case costing*.

6.7 Our recommendations from this audit are as follows:

Recommendation 6.1

We recommend that CDHA establish policies and related system processes regarding timing of interim billings in cases where there has been no discharge date for extended time periods. We also recommend terms and conditions be arranged and documented with the parties in these cases.

Recommendation 6.2

We recommend that CDHA institute a requirement for formal sign off that billing rate updates have been entered correctly. Documentation supporting the changes should be retained.

Recommendation 6.3

We recommend complete reconciliation of parking tickets issued with cash deposited and appropriate documentation of the process.

Recommendation 6.4

We recommend that the Department of Health and CDHA reconsider existing policies regarding the provision of services to non-Canadians and modify as required. Policies should address necessary guarantees and credit authorizations, billing frequency and rates, and formal reviews of individual cases by the DHA and Department of Health when charges reach a specified amount or length of stay exceeds a certain number of days.

Recommendation 6.5

We recommend that CDHA update and strengthen its credit management policies and procedures including credit authorization.

Recommendation 6.6

We recommend that CDHA disclose its related party relationship with the Foundations and Partners for Care, including transactions between the related parties during the year, in the notes to CDHA's financial statements.

Pharmacare and Other Drug Programs

Pages 76 - 109

7.1 This was a concurrent audit with legislative auditors of eight other Canadian jurisdictions using a common audit plan and methodologies.

7.2 Drug therapy is an important part of an integrated health care system in Canada. Appropriate drug therapy has the potential to reduce costs in other aspects of the health system such as acute care and long-term care. Drug programs offered by all governments in Canada have been experiencing rapidly increasing costs. Despite the Nova Scotia government's best efforts to control costs by introducing initiatives such as a strong pharmacy audit regime, setting maximum acquisition costs based on equivalent drugs, requiring special approvals for funding of certain drugs, a thorough formulary management process and programs designed to positively influence physician prescribing, costs continue to increase.

7.3 From our review of cost data from other provincial programs in Canada, Nova Scotia drug costs compare favourably with those of other provinces.

7.4 The contract with Atlantic Blue Cross Care for administration of the drug programs is not current, and is inadequate. We recommend that DOH finalize a performance-based third party service provider contract that includes clearly defined roles, responsibilities, and performance expectations.

7.5 Although there is now a national Common Drug Review process, Nova Scotia is still responsible for deciding which drugs will be added to the Province's formulary and for reviewing old drugs with new indications, line extensions and class reviews. We noted that the processes for reviewing and assessing drug manufacturers' submissions and approving additions to the formulary are thorough and consistent. The advice of experts is sought and followed. Effectiveness of drugs and costs are considered.

7.6 The controls and processes in place at ABCC over the payment and monitoring of electronic claims are appropriate. Controls could be improved in the payment and monitoring of manual claims at ABCC.

7.7 DOH needs to conduct a comprehensive evaluation of options for reducing drug costs for the pharmacare programs in Nova Scotia. As an example the Nova Scotia Provincial Drug Distribution Program, which acquires drugs used by District Health Authorities in acute care institutions, has been able to procure drugs at prices approximately 14.8% lower, by purchasing through a national buying group, than prices paid to pharmacies for the same drugs through the Provincial Pharmacare programs. Although we acknowledge that pharmaceutical companies ultimately control the price of drugs and may be unwilling to reduce prices for drugs which are not used in a hospital setting, the potential savings to the program of even modest drug price reductions could be significant and warrants further study. We also acknowledge that bulk purchasing is complex because of the need to consider such factors as warehousing, distribution and uncertainties about how the market would respond to such initiatives.

7.8 We recommended that current DOH initiatives to monitor drug utilization and physician prescribing practices should be continued and enhanced.

7.9 We recommended that DOH should explore options to increase physician participation in *academic detailing* which is a program administered by Dalhousie Continuing Medical Education to provide educational advice to physicians on drug-related topics through visits to physicians' offices.

7.10 The Department of Health needs to improve its information systems for the Pharmacare programs. The current information technology is outdated and unable to produce all information required for appropriate monitoring.

7.11 Our recommendations from this audit are as follows:

Recommendation 7.1

We recommend the Department and government update and consolidate legislation governing the various prescription drug programs.

Recommendation 7.2

We recommend that the Departments of Health and Community Services develop a process to establish objectives, measure and evaluate the performance of the Pharmacare Programs. The objectives and results should be included in Departmental Business Plans and Accountability Reports.

Recommendation 7.3

We recommend that DOH formalize a performance-based third party service contract for the administration of the Pharmacare Programs and that the contract be appropriately approved in accordance with the Government Procurement Policy.

Recommendation 7.4

We recommend that DOH develop a long-term system development strategy for the Pharmacare Program.

Recommendation 7.5

We recommend that the Departments eliminate the mark-up paid to pharmacies for generic drugs.

Recommendation 7.6

We recommend that the Department of Health identify and analyze possible options for reducing drug prices.

Recommendation 7.7

We recommend DOH increase the number of primary care physicians meeting with academic detailers by identifying and addressing the barriers to participation.

Recommendation 7.8

We recommend DOH continue and enhance its drug utilization review activities to ensure that both general and specific data related to both providers and patients is examined and followed up on a regular basis.

Recommendation 7.9

We recommend DOH seek the legislative authority to collect and analyze drug information for all Nova Scotia residents and move toward a full electronic health record to provide pharmacists, nurse practitioners and physicians with complete

information to assist in the identification of potential drug interactions.

Recommendation 7.10

We recommend DOH establish a real-time electronic system to track utilization of drugs monitored by the Prescription Monitoring Association of Nova Scotia with the goal of flagging issues before prescriptions are dispensed.

Recommendation 7.11

We recommend that each of the disease specific drug programs be reviewed to ensure that the rationale for the program is still valid and that the coverage provided by the various programs is consistent.

Recommendation 7.12

We recommend that the controls over claims related to disease-based programs be strengthened to include audit verification, appropriate segregation of duties and assessment of the reasonableness of drug costs.

Recommendation 7.13

We recommend the Department of Health put processes in place to ensure that it is receiving sufficient information from the QEII and the IWK to allow detailed analysis of program costs and to ensure only eligible patients receive prescriptions covered by the Exception Drug Fund.

Revenues and Recoveries

Pages 110 - 128

8.1 Overall, the Revenue/Recovery Section appears to have appropriate systems and controls in place and is in compliance with legislation and policies relative to billing and payment of hospital services.

8.2 Neither the Department nor the DHAs have *case costing* information to assess whether revenues and recoveries are adequate to cover the cost of services delivered.

8.3 Due to delays in receipt of information from the DHAs and IWK, the Department has not been able to issue invoices to other provinces on a timely basis. The Department receives payments within a reasonable timeframe once billing to the other jurisdictions is completed. The Department also needs to ensure that it has proper documentation in the form of non-resident declaration forms to support all out-of-province billings in the event that the patient's eligibility for coverage is challenged by the paying province.

8.4 Currently not all costs are included in the motor vehicle levy calculation. The Department of Health needs to develop a process to recover costs of the Insured Prescription Drug Program and inter-hospital ambulance transfers from third parties either through the levy or in some other way.

8.5 The DHAs show accounts receivable of $42 million as at March 31, 2004. Of this amount, 37% had been outstanding for more than 90 days. This indicates a need for more focus on collection of accounts receivable.

8.6 Our audit revealed significant variations in DHA billing rates. The Department should review

DHA revenues and recovery rates for consistency across the system.

8.7 There is inconsistency in recording and reporting of revenues and recoveries across the system. Revenues are sometimes netted against expenses rather than being specifically identified as revenues. The Department of Health is aware of the problem and has recently begun discussions with the DHAs with the objective of increasing consistency.

8.8 Our recommendations from this audit are as follows:

Recommendation 8.1

We recommend that the DOH Revenue/Recovery Section require billings from the DHAs and IWK to be submitted to DOH within 30 days of discharge.

Recommendation 8.2

We recommend that the DOH Revenue/Recovery Section ensure that all non-resident patient declaration forms are obtained from hospitals at the time billing data is submitted to the Department.

Recommendation 8.3

We recommend the Department of Health implement necessary changes to enable electronic exchange of reciprocal billing information with all jurisdictions.

Recommendation 8.4

We recommend that the Department of Health work towards accumulating the necessary cost information to assess whether fees are adequate to cover the cost of services delivered.

Recommendation 8.5

We recommend that the Department of Health develop a process to recover costs currently excluded from the motor vehicle levy from third parties.

Recommendation 8.6

We recommend more stringent credit monitoring to ensure collection of the motor vehicle levy from the insurance companies within the 60 day policy, including consideration of charging interest on overdue amounts.

Recommendation 8.7

We recommend that the Superintendent of Insurance develop a process for reconciling the number of vehicles reported by the IBC to the number of vehicles registered with the Nova Scotia Registry of Motor Vehicles to ensure motor vehicle levy invoices are based on accurate information.

Recommendation 8.8

We recommend that the Department of Health review the rates charged by DHAs for the most common uninsured services and establish common rates which recover the costs of services provided.

Recommendation 8.9

We recommend that all DHAs have formal credit management policies and that the policies be complied with.

We also recommend that the DHAs make significant efforts to increase the timeliness of accounts receivable collection.

Recommendation 8.10

We recommend that the Department continue with its efforts to achieve conformity with the MIS Guidelines in recording and standardized reporting of revenues and recoveries across the DHAs.

• • Service Nova Scotia and Municipal Relations

Municipal Services Division

Pages 129 - 142

9.1 Municipal Services Division has appropriate control over municipal grants.

9.2 The Division complies with Provincial legislation.

9.3 The Division has appropriate systems to monitor municipal operations, to the extent required by Provincial legislation, but does not publish performance and statistical information for municipalities on a timely basis.

9.4 Certain amounts paid to municipalities from funds received from Nova Scotia Power Inc. are recorded in the accounts of a government department other than Service Nova Scotia and Municipal Relations.

9.5 Our recommendations to government from this audit are as follows:

Recommendation 9.1

We recommend that the accounts of Service Nova Scotia and Municipal Relations include all expenditures and recoveries relating to grants to municipalities which are the responsibility of the Minister of SNSMR.

Recommendation 9.2

We recommend the Department ensure reporting of municipal performance occurs on a timely basis.

Recommendation 9.3

We recommend the Department apply sufficient resources and implement additional procedures, if necessary, to ensure municipal statistical reports are available on a timely basis.

CROWN AGENCIES AND CORPORATIONS

Resource Recovery Fund Board Incorporated

Pages 144 - 154

10.1 Overall, Resource Recovery Fund Board has adequate internal performance reporting and adequate internal controls. RRFB also has reasonable policies and processes related to the provision of financial assistance. However, we have made recommendations for improvements regarding external performance reporting, compliance with generally accepted accounting principles in financial reporting, internal controls, as well as in other areas.

10.2 The Resource Recovery Fund Board is an agency of government and, as such, needs to ensure it is in compliance with Provincial legislation, regulations and policies which will further its accountability and ensure appropriate stewardship of public funds.

10.3 There is adequate and timely performance reporting within Resource Recovery Fund Board. RRFB has clearly defined goals and objectives, and has developed performance indicators and set targets to help it assess its performance. However, RRFB's external reporting does not include reporting of performance with respect to these indicators and targets.

10.4 The Resource Recovery Fund Board was created to administer the Resource Recovery Fund. The administration agreement with the Province states that RRFB has no *right, claim or title* to the property of the Fund. However RRFB's financial statements report that RRFB owns the Fund assets, and there is no separate financial reporting by the Fund.

10.5 Our audit of information technology controls at Resource Recovery Fund Board concluded that the organization's general computer environment and application controls are adequate.

10.6 Resource Recovery Fund Board does not follow the Provincial Procurement Policy. We believe procurement practices at RRFB are contrary to the Provincial policy's objective of ensuring all public sector procurement is completed in an open, fair and competitive manner.

10.7 RRFB undertook to sell its expertise and technology to various other countries, focusing primarily on the Caribbean. The initiative was undertaken without completing a detailed business plan. RRFB did not prepare an analysis of the costs, benefits or risks of the initiative, nor has it tracked expenses for the project or monitored its progress against any identified goals or targets.

10.8 The Resource Recovery Fund Board has incurred expenses for Board of Director and other liability insurance. However, it appears that the Environment Act protects the organization from liability. Based on our advice, RRFB is reviewing the matter to determine the degree of protection provided by legislation.

10.9 Our recommendations from this audit are as follows:

Recommendation 10.1

We recommend that Resource Recovery Fund Board improve its external reporting of performance. Including information such as performance against quantified targets in the organization's annual report would improve its usefulness as an accountability document.

Recommendation 10.2

We recommend that Resource Recovery Fund Board review its financial reporting policies to ensure its annual financial statements are fairly presented in accordance with associated agreements, regulations and generally accepted accounting principles.

Recommendation 10.3

We recommend that initiatives be taken to strengthen control over information technology, including an industry-standard computer room, more secure off-site storage of file back-ups, and documentation of staff agreement to follow the organization's security policies and acceptable use guidelines.

Recommendation 10.4

We recommend that Resource Recovery Fund Board strengthen controls to reduce the risk associated with the two co-located Enviro-Depots/regional processing centres.

Recommendation 10.5

We recommend that Department of Environment and Labour requests for payment for reimbursable expenses be supported by an analysis of actual expenses made by the Department, and an indication of how such expenses further the achievement of the goals, objectives and mandate of RRFB or the Fund.

Recommendation 10.6

We recommend that Resource Recovery Fund Board adhere to the spirit and detailed requirements of the Nova Scotia Procurement Policy.

Recommendation 10.7

We recommend that new business initiatives be adequately supported by a comprehensive analysis of the costs, benefits and risks. Costs and progress against identified goals and targets should be monitored throughout the life of the project.

Recommendation 10.8

We recommend Resource Recovery Fund Board update its articles of incorporation or prepare a set of comprehensive corporate bylaws.

Recommendation 10.9

We recommend that all government entities be required to obtain formal approval before they create, acquire or dispose of another government entity.

Recommendation 10.10

We recommend government establish a communication process to ensure relevant statutory, policy or other requirements are effectively communicated to the governing bodies and senior management of all government entities. We also recommend Resource Recovery Fund Board put in place a process to ensure it is aware of, and in compliance with, all statutory or other requirements affecting its operations.